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The state of sustainability reporting assurance in the United Kingdom: perspectives of assurance providers and stakeholders

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A thesis submitted for the degree of Doctor of Philosophy at
Middlesex University Business School, London

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Abstract

Sustainability reporting assurance is considered as a practice that enhances the credibility and quality of reported information (Dando and Swift, 2003; ACCA, 2004). However, studies have found significant variances and inconsistencies that exist across assurance statements but little attention has been paid to understanding more about the nature of the variances beyond the examination of assurance statements. The apparent variances affect the ability of sustainability assurance to deliver robust levels of stakeholder accountability; as such a detailed exploration behind the dynamics of stakeholder consideration in the practice is required. Hence, this study presents an updated and expanded assessment of sustainability reporting assurance practices by adopting a three-stage mixed methods investigative approach.

The first stage is a content analysis of assurance statements published by FTSE350 companies using a specifically developed evaluation template. Core elements such as scope of assurance, level of assurance, addresses, guidelines used, independence of assurance providers, assurance work undertaken, stakeholder consideration and conclusions were of particular focus. Data obtained on these elements were explored further in the subsequent stages of the study. The second stage involved semi-structured interviews with 13 assurance providers focusing on their roles in the process and the apparent variances that appear in assurance statements. The third stage is comprised of further semi-structured interviews with representatives of 11 different stakeholders. All data generated were

analysed and interpreted through the audit theoretical conception by Power (1991, 1994, 1999) as well as the legitimacy, institutional and stakeholder theories.

Sustainability reporting assurance remains largely a valuable practice but there is a fundamental absence of consistent and comprehensive shared meaning and approach on the practice. This has manifested in the different application of sustainability assurance processes thus making it challenging for a single approach to be generally accepted. Also, considerable evidence of managerial capture was observed as assurance providers confirmed the vast degree of influence exerted by reporting companies in assurance processes, an issue that no direct solution or effort was acknowledged to assist in alleviating. The presence of a sustainability assurance expectations gap serves as a key factor that drives the severe caution expressed by stakeholders about the practice. The lack of stakeholder influence was apparent, thus limiting their ability to put companies and assurance providers under pressure towards a more stakeholder oriented provision of sustainability assurance. In general, the findings of this study call into question the ability of the current state of sustainability reporting assurance to enhance transparency and hence discharge effective corporate accountability to stakeholders.

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My profound respect and gratitude goes to my supervisors, Professor George Jedrzej Frynas, Dr. Sepideh Parsa and Dr. Catherine Chen, for their inexhaustible support, advice and encouragement through out the duration of my study. Their views and perspectives have proved to be tremendously helpful, right from day one, and have greatly assisted in making the past few years of my life as well as my research journey nothing short of rewarding. I am grateful to them for making such a valuable contribution to my life.

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The various materials used to conduct this research, right from its inception, were vitally important. Therefore I extend special thanks to all the authors of the sources that have been referred to in this research study. Without their brilliant contribution, I would have been lost. Also, my immense gratitude goes to all the participants that voluntarily participated in this study, without their perspectives, completing this research would not have been possible.

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List of Abbreviations

| | |
|--------|--|
| ACCA | Association of Certified Chartered Accountants |
| APB | Auditing Practice Board |
| AAPESB | Australian Accounting Professional and Ethical Standards Board |
| CDP | Carbon Disclosure Project |
| CPA | Certified Practicing Accountants |
| CR | Corporate Responsibility |
| CSR | Corporate Social Responsibility |
| CERES | Coalition for Environmentally Responsible Economies |
| DNV | Det Norske Veritas |
| DJSI | Dow Jones Sustainability Index |
| ERM | Environmental Resource Management |
| FEE | Federation des Experts Comptables Europeens |
| FRC | Financial Reporting Council |
| FTSE | Financial Times Stock Exchange |
| GRI | Global Reporting Initiative |
| IAASB | International Auditing and Assurance Standards Board |
| ICAEW | Institute of Chartered Accountants in England and Wales |
| ICB | Industry Classification Benchmark |
| IESBA | International Ethics Standard Board for Accountants |
| IFAC | International Federation of Accountants |
| IIRC | International Integrated Reporting Council |
| ISEA | Institute of Social and Ethical Accountability |
| LRQA | Lloyd's Register Quality Assurance |
| MDF | Multi-divisional Form |
| NIE | New Institutional Economics |

| | |
|-------|---|
| NIS | New Institutional Sociology |
| OIE | Old Institutional Economics |
| UNEP | United Nations Environmental Programme |
| WBCSD | World Business Council on Sustainable Development |

Chapter One: Introduction

1.1 Introduction

Social audit was initially experimented in the 1970s by Social Audit Ltd. driven by the fundamental notion of how corporate reports and activities affect consumers, employees, local communities and other interests (Medawar, 1976; Gray 2001; Gray 2002; Gray 2008). However, it was in the early 2000s that social audit gained considerable prominence and was eventually branded 'sustainability'¹ reporting assurance (Blanco and Souto, 2009). Assurance was founded on the basis of conflict and differing interests aimed at challenging those with power to act differently (Gray, 2001). If companies fail to give account of their activities to the public, assurance is designed to identify and assist in addressing the failures.

¹ The term 'sustainability' is extensively used in this study as numerous companies and professional organizations appear to comfortably use terms such as 'sustainability reports', 'sustainability development' and 'sustainability performance'. There is a great misunderstanding and misinterpretation of the 'true' meaning and conception of 'sustainability' (see Bebbington, 2001) as companies seem to rely heavily on the business case of sustainability due to the definition provided by KPMG (2002). In a broad sense, companies are not (yet) sustainable (Gray and Milne, 2002; Bebbington and Gray, 2001) and it is dangerous for such a term to be used frequently by businesses. 'It is very difficult, if not impossible to describe what a sustainable organization would look like, therefore it is impossible for an organization to report on its sustainability' (O' Dwyer and Owen, 2005, p. 207). In this study, the term 'sustainability' is used solely because of its frequent presence in corporate reports examined and to aid discussions with assurance providers and stakeholders. The language used in terms of 'sustainability' throughout this study does not endorse companies' claims as practicing 'true' sustainability (as described by Bebbington, 2001) nor does it suggest that the associated assurance investigated is consistent with 'true' sustainability.

Sustainability reporting assurance remains a voluntary practice without a universal definition. A basic conception of assurance² is ‘the evaluation of the effects of an organization’s activities from an internal and external perspective by an independent auditor focusing on social accounting’ (Blanco and Souto, 2009: 159). The term ‘assurance engagement’ was defined as an ‘engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against a criteria’ (IAASB, 2012: 16). Another definition was offered by AccountAbility, who stated that assurance is ‘an evaluation method that uses a specified set of principles and standards to assess the quality of an organization’s subject matter and underlying systems, processes and competencies that underpin its performance (AA1000AS, 2003: 5). An essential characteristic that is relevant in all the definitions of assurance provided above is the assessment by assurance providers. The efforts of assurance providers are expected to bring an additional sense of credibility, comfort and quality to accompanying reports.

Assurance presents an approach for organizations to demonstrate their accountability³ on, particularly, their sustainability endeavors (Gray, 2002). Conversely, assurance is also a way external parties can hold organizations’ performance to account on sustainability issues (AA1000AS, 2008). Assurance gives users the opportunity to build an opinion on the

² Assurance is a term commonly used to refer to any type of work that provides confidence to the recipient (ICAEW, 2012, p. 12)

³ ‘Accountability places society at the heart of the analysis and questions the legitimacy of an organization’s actions or perhaps even its right to exist’ (Gray, 2001: 11)

content of sustainability reports based on the professional knowledge and competence of assurance providers that carried out the assurance processes⁴. Assurance encourages companies to disclose information that is capable of being assured or verified, as Power (1996: 289) argued that unless data is verifiable, audit has no reason for existence. Meanwhile, the reputation and systems of companies' practices has promoted the need for an audit framework across different areas of operation to ensure additional reliability of corporate reports.

Assuring sustainability reports is not as direct as conventional audit procedures because the information assured is fundamentally different. Conventional audit information is mainly quantitative in nature while sustainability information could be both quantitative and/or qualitative (Gray et. al, 1996). This makes sustainability reports more complex to assure than financial statements, as the content of every sustainability report is different. Thus, objectively evaluating varying qualitative information becomes more difficult than relatively similar quantitative data. Other issues around assurance standards (Deegan et. al, 2006; Mock et. al, 2007), independence (Perego, 2009; O' Dwyer and Owen, 2007; Ball et. al, 2000) and assurance providers (Simnett et. al, 2009; Manetti and Toccafondi, 2012), amongst others, all contribute to the complex nature of sustainability reporting assurance.

However, the considerable growth in sustainability assurance around the world over the years (KPMG, 2008; 2011; 2013; Kolk, 2010) has presented

⁴ In addition to the reporting principles outlined in the Sustainability Reporting Guidelines, GRI 'recommends the use of external assurance' to enhance the quality of sustainability reports (GRI, G3, 2006; p. 39 and G4, 2013; p. 85).

a situation where further understanding of the practice is required. Scholars and professionals have examined various aspects of assurance (Ball et. al, 2000; Manetti and Becatti, 2009; O' Dwyer and Owen 2005; 2007; Simentt et. al, 2009; KPMG, 2005; 2008; 2011; Mock et. al, 2007; Perego, 2009; O' Dwyer, 2011), making profound contribution in the process. However, there are issues that are in need of further clarification. This study attempts to offer explanations to some of these assurance issues towards ensuring accountability to the public and stakeholders, which remains an important area of consideration in corporate activities.

1.2 Rationale of the Study

The growth of sustainability reporting assurance over recent years has not adequately addressed all crucial aspects of the practice. While recognisable attempts have been made, there are areas that still leave users with many questions. According to the literature, assurance is designed to add credence to users of sustainability reports (Adams and Evans, 2004). If users find it difficult to understand the content of assurance statements, it becomes impossible for its purpose to be achieved.

Based on efforts by independent organizations such as International Federation of Accountants (IFAC)⁵ and AccountAbility⁶, guidelines now exist to assist in discharging assurance. However, these guidelines appear to be implemented in a mix and match approach (Deegan et. al, 2006;

⁵ Responsible for ISAE3000

⁶ Responsible for AA1000AS

Manetti and Toccafondi, 2012). This raises a set of questions about assurance engagements. Therefore, there is a need for an improved understanding and clarity on the content of assurance statements and their underlying processes. While previous studies have investigated the presence of these concerns, the reasons why these elements appear are yet to be explored in greater detail. Below is a summary of studies about sustainability reporting assurance as well as their respective methods of inquiry.

Table 1.1 Summary of previous studies

| Studies | Purpose | Method |
|----------------------------------|--|---|
| Ball, Owen and Gray (2000) | Evaluate the extent to which verification statements promote organizational transparency and empower external parties | Content analysis of third-party verification statements |
| O' Dwyer and Owen (2005) | Critical analysis of the extent to which assurance statements enhance transparency and accountability to organizational stakeholders | Content analysis of assurance statements |
| Park and Brorson (2005) | Explore development of sustainability reporting and decision to (or not) introduce voluntary assurance | Interviews with company representatives and assurance providers |
| Deegan, Cooper and Shelly (2006) | Document a comprehensive review of assurance statements | Content analysis of assurance statements |
| O' Dwyer and Owen (2007) | Examined the effectiveness of discharging stakeholder accountability in assurance practices | Content analysis of assurance statements |

| | | |
|--------------------------------------|---|---|
| Manetti and Becatti (2009) | Examined various assurance standards and the nature of their implementation. | Content analysis of assurance statements |
| Perego (2009) | Examined the implications for choosing different assurance providers for independent assurance provision | Content analysis of assurance statements |
| Simnett, Vanstraelen and Chua (2009) | Develop an understanding of the emerging nature of voluntary assurance market | Content analysis of assurance statements |
| Kolk and Perego (2010) | An exploration of the factors that are associated with the voluntary adoption of sustainability reporting assurance | Content analysis of assurance statements |
| Jones and Solomon (2010) | An examination of whether sustainability reporting assurance is necessary | Interviews with company representatives |
| Edgley, Jones and Solomon (2010) | To understand the process, benefit, extent of stakeholder inclusivity and managerial capture in assurance processes | Interviews with assurance providers |
| O' Dwyer, Owen and Unerman (2011) | Investigated processes of securing legitimacy for assurance across key constituents | Interviews with assurance providers |
| O' Dwyer (2011) | Develop understanding of constructing assurance and its impact in rendering sustainability reporting auditable | Interviews with assurance providers and documentary sources |
| Perego and Kolk (2012) | The adoption of assurance practices by multinational corporations to sustain accountability for sustainability | Content analysis of assurance statements |

| | | |
|---------------------------------|---|--|
| Manetti and Toccafondi (2012) | An exploratory analysis to understand the extent to which stakeholders are consulted and involved in sustainability reporting assurance | Content analysis of assurance statements |
| Edgley, Jones and Atkins (2015) | An investigation on the logics of the materiality concept within SERA processes | Interviews with assurance providers |

External stakeholders should be the main audience of sustainability reporting assurance, but the level of attention given to stakeholder involvement and stakeholder engagement disclosure in assurance is negligible (O’ Dwyer and Owen, 2007). As shown in Table 1.1 above, studies about assurance are, so far, mainly based on assurance statements, thus more research attention is needed on alternative components of the practice. Other mechanisms should be adopted in seeking answers to the questions that are accompanied by reading assurance statements. This study attempts to offer further explanations to some of these uncertainties that are associated with sustainability reporting assurance; factors that affect stakeholder consideration are also considered.

1.3 Aims and Objectives of the Study

This study focuses on investigating key issues in sustainability reporting assurance in the UK. More specifically, objectives of this research are:

- To evaluate the nature and trend of sustainability reporting assurance
- To examine the extent of stakeholder consideration in assurance processes of sustainability reports
- To investigate the variability of sustainability assurance processes that appear in assurance statements
- To develop an understanding on the approaches adopted by assurance providers in sustainability reporting assurance processes.
- To understand stakeholder perceptions about social and environmental reporting assurance

1.4 Key Features of the Study

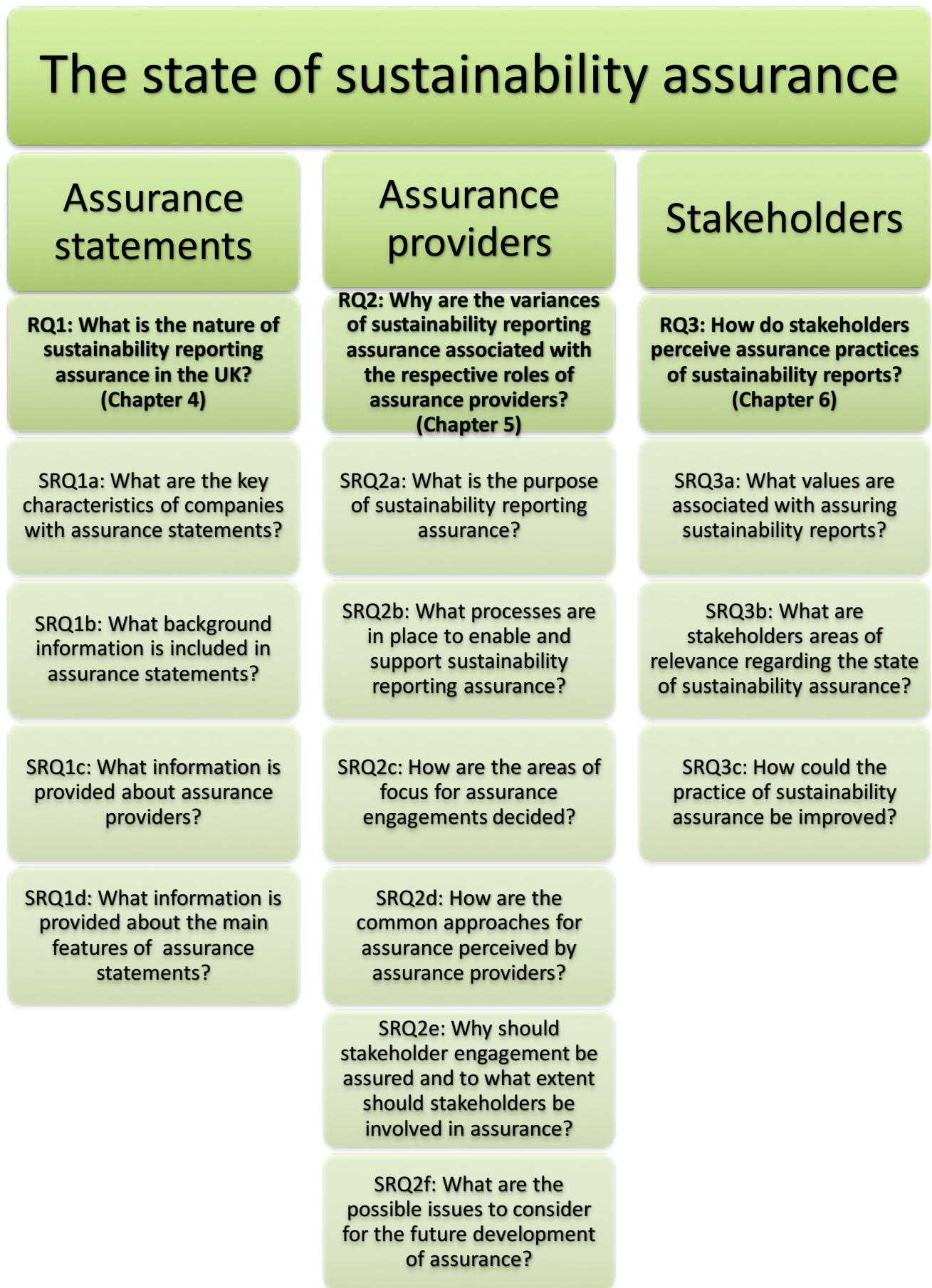
This research is mainly designed to explore key aspects of sustainability reporting assurance based on a UK context. The study is classified into three interconnected parts.

First, assurance statements were examined against a specifically developed evaluation template to facilitate a content analysis. The developed evaluation template included key elements of assurance statements as outlined in previous scholarly studies and assurance guidelines. Issues of assurance provider's identity, independence, assurance guidelines employed, assurance scope, assurance work undertaken to gather evidence, stakeholders and conclusions are all given due attention. The content analysis assisted in establishing a trend of key elements in sustainability reporting assurance practices. Findings relating to similarities and differences that were present in the sample of

assurance statements contributed in developing areas of discussion in the interview stage of the study.

Second, semi-structured interviews with assurance providers were arranged to directly obtain more evidence about sustainability assurance practices. There are concerns about the clarity of published assurance statements, in addition to the variances that were found to be present (Ball et. al. 2000; Deegan et. al. 2006; O' Dwyer and Owen, 2007). Thus, readers are unable to fully understand various parts of assurance statements, leaving them with unanswered questions (Deegan et. al, 2006). As a result, the information assurance statements are meant to convey becomes fractured. Since assurance providers are responsible for administering assurance engagements, their perspective on the variances that appear in assurance statements is valuable. Hence, the interviews with assurance providers focused on key sustainability assurance issues, including a consideration of their respective approaches and functions when discharging assurance engagements. Figure 1.1 below shows the classification of different issues discussed with interviewees.

Figure 1.1 Addressing research questions of the study



Third, interviews with stakeholders were carried out due to their importance as users of assurance statements (Adams and Evans, 2004). While literature shows stakeholders have been given little attention in assurance research (O' Dwyer and Owen, 2007; Jones and Solomon, 2010), this study intends to elicit the perspective of stakeholders about the state of sustainability assurance engagements with attention given to key aspects of the practice. Views of stakeholders are also valuable to this study given that there is a dearth of external stakeholder perspectives in the sustainability reporting assurance literature. Figure 1.1 presents a brief on the discussions with stakeholders as well as its location in the thesis.

Collective findings of this study, particularly the perspectives of assurance providers and stakeholders, present a useful contribution in understanding the complexity around sustainability reporting assurance. The opinion of these two parties has assisted in providing key information that is unavailable in assurance statements. On the one hand, the views of assurance providers helped in providing exclusive insights into background approaches and challenges faced in the processes of assurance, which have assisted in shaping the state of the practice as reflected in the statements. On the other hand, the stakeholders provided details on their perceptions and expectations of sustainability assurance, which can be used to assess their collective opinion and the effectiveness of the practice. The views of assurance providers and stakeholders also assist in providing a future direction of sustainability reporting assurance.

1.5 Structure of the Study

This introductory chapter presents an overview of the rationale, aims and objectives and key features of the research study. Chapter two discusses contemporary literature on sustainability reporting assurance as well as relevant theoretical constructs, followed by the research questions of the study. The third chapter deals with the research philosophy, methodology, method and evaluation. This chapter serves an important role in describing and formulating the processes of gathering and analyzing the empirical data for this study. Chapter four focuses on a content analysis of sustainability assurance statements by constituents of FTSE350. The trends from the content of assurance statements highlighted important features of the practice but were unable to provide further insights. As such, chapters five and six discuss the perspectives of assurance providers and stakeholders respectively on the practice of sustainability assurance through a series of semi-structured interviews. The chapters provide valuable insights on sustainability assurance including areas of concern and the future of the practice. The final chapter (seven) presents a summary of the entire findings in addition to its implications and contribution to knowledge, which collectively highlights the key issues in sustainability reporting assurance as a mechanism for providing accountability to society.

Chapter Two: Literature Review

2.1 Introduction

This chapter presents a review of relevant literature in relation to social and environmental reporting assurance. The available material in the area of social and environmental assurance over the past 15 years has aided in the understanding and development of the practice. This has also provided room to further investigate such a phenomenon and its associated components. The trends and characteristics of assurance statements will be discussed in this chapter. As assurance is an aspect of CSR/sustainability disclosure, initial discussions will briefly deal with the state of social and environmental accounting.

The next section reviews social and environmental accounting as a concept that argues on the need for diverse forms of accounting. This section also discusses social and environmental disclosure as an approach for providing more corporate information in addition to existing financial disclosure. Section three introduces the concept of sustainability reporting assurance as well as trends of its practice around the world, while section four explores determinants of the practice. Section five outlines the key features of sustainability reporting assurance, which includes assurance providers, types of assurance, assurance guidelines and standards, assurance procedures and a brief look at the nature of assurance conclusions. Section six deals with benefits of assurance services while section seven focuses on concerns about assurance practices. The eighth section provides details about stakeholders in assurance practices. In

section nine, an overview of theoretical framework is offered; the audit theory, legitimacy, stakeholder and institutional theory are all discussed. Section ten identifies the gaps in literature along with an outline of the research questions for the study. The final section concludes the chapter.

2.2 Social and Environmental Accounting

Accounting remains a crucial part of daily dealings in organizations and societies (Hines, 1988; Unerman et. al, 2007; Wood and Sangster, 2008), given its relevance in almost any recognised activity (Mulgan, 2000; Power, 1997; Unerman et. al, 2007; Wells, 1976; ACCA, 2004). The practice of accounting is dominated by financial accounting to the extent that it is considered as 'conventional accounting' (Gray, 2007; Othman and Ameer, 2009). This position has elevated financial accounting to be considered by many as the focal point in the accounting arena. However, Medawar (1976) critically questioned the originality and essence of accounting procedures and called for new forms of accounting simply because financial accounting is too narrow (Gray et, al. 1996), uncritical (Unerman et. al, 2007), selective (Gray, 2008), lacks innovation (Bebbington et, al. 1994) and partisan in nature (Baker and Bettner, 1997). Thus, the concept of social accounting⁷ that puts societal prosperity and success at the center of analysis (Gray, 2001; 2000; 2008) was favoured.

The position held by Medawar (1976) served as a seminal work for which leading scholars like Gray et. al. (1996), Owen et. al. (1997), Tinker (2005); Power (1999); Patten (1992) and Parker (1991) amongst others have

⁷ Social accounting considers both financial and non-financial aspects of performance

significantly improved and expanded the idea of social and environmental accounting today. More importantly, subsequent arguments in the studies by Gray et. al. (1996), Gray (2001), Gray (2002), Power (1997) Thompson and Bebbington (2005) and Unerman et. al. (2007) have further illuminated the distinction between financial accounting and social accounting.

Social accounting emphasizes the consistent interaction with various stakeholder groups and reviewing consequence of the interaction in a way that the rights of relevant parties in society are respected and properly accounted for. These are some of the reasons why Gray (2002; 2008) insisted that social accounting is in a better position to be considered as a field that can accommodate all possible forms of accounting. The nature of social accounting allows for various techniques to be adopted and challenged unlike conventional accounting, which is restricted to a specific set of rules and guidelines that prevent other accounting forms from being promoted (Othman and Ameer, 2009; Parker, 2005). The relationship between organizations and society has the potential to be greatly improved through effective social accounting mechanisms (Unerman and Bennett, 2004)

Accounting for the society, with its complexity, challenges and weaknesses (Spence, 2009; Deegan and Unerman, 2011; Owen et. al, 1997; Tinker, 2005; Tinker et. al, 1991; Puxty, 1991) is an added impetus to the accounting profession, as it attempts to accommodate societal issues in general rather concerns of a few minority (Gray, 2001). Principles of social

accounting can assist the efforts of social and environmental responsibility practitioners.

2.2.1 Social and Environmental Practices

Social and environmental responsibility is progressively becoming a basic requirement for the strategic survival of companies. An international survey shows that 70% of global chief executives accept the need for addressing issues relating to social and environmental responsibility (Adams and Zutshi, 2004), as a valid condition that has the ability to influence corporate profitability (Adams and Frost, 2008; Deegan and Unerman, 2011; Gray, 2007; Chen and Roberts, 2010; Hackston and Milne, 1996; Neu et. al, 1998; Williams, 1999; Deegan and Gordon, 1996). Most aspects of corporate activities today can be associated with social and environmental issues (Unerman et. al, 2007; Blowfield and Murray, 2008; Petrini and Pozzebon, 2009). Addressing social and environmental issues does not only involve engaging in such issues but also informing relevant external parties about the corporate approach to social and environmental responsibility.

There are diverse ways in which companies can choose to inform the society about their social and environmental issues and performance. Public disclosure serves as a means by which companies communicate with the society about their conduct in order to shape external perception, how the society perceives a company is perhaps more important than the actual activities of respective companies (O' Donovan, 2002; Nasi et. al, 1997; Suchman, 1995; Deegan and Blomquist, 2006).

2.2.2 Social and Environmental Reporting

Public disclosure of social and environmental information by organizations has existed for many decades (Guthrie and Parker, 1989, Unerman et. al, 2007) but is yet to be a stable practice for long periods due to its tendency to disappear and then resurface again afterwards⁸ (Parker, 1986; Gray et. al, 2009; Owen, 2008; Aravossis and Panayiotou, 2008). The current wave of social and environmental disclosure can be considered to have started in the mid 1990s (Deegan, 2009; Gray, 2001). There have been considerable changes in reporting contents over the years (Mathews, 1997). Reporting started with information about the environment, which then evolved to social and environmental issues. Currently, the practice is largely referred to as sustainability reporting (Gray, 2007; O'Dwyer and Owen, 2007) and is published as standalone reports by companies from different industries, countries and cultures.

The Internet, being a major means of communication today, has increasingly provided a platform for companies to disclose their social and environmental information (Adams and Frost, 2006). This has increased the possibility for potential users to instantaneously gain access to corporate information from almost anywhere, thus, being part of the revolution in the way companies communicate with external parties (Ettredge et. al, 2001). The associated benefits of using the Internet to disseminate social and environmental information creates the possibility of a broader group of stakeholders to be included and considered not only

⁸ Gray et. al. 2009 highlighted private sector overreliance on profit and justification of what they do, which is unsatisfactory. There 'must be combative elements to deal with conflict of power and responsibility' (p. 549)

in disclosure but also in management practices (Lawrence, 2002; Adams and Kausirikun, 2000; Unerman and Bennett, 2004).

Every entity has its distinctive characteristics and circumstances that affect the context of the company's social and environmental expected responsibilities (Hohnen and Potts, 2007; Kolk, 2010). This influences the various reasons and motivation behind companies' decisions to engage in social and environmental disclosure (Othman and Ameer, 2009; Adams, 2002; Cormier and Gordon, 2001; Deegan et. al, 2000; Deegan and Rankin, 1996; Deegan et. al, 2002; Unerman, 2008; Bebbington et. al, 2008; Deephouse and Carter, 2005). As a result, notable variances in the quality and quantity of reports (Adams, 2002) as well as the qualitative and quantitative information provided in the reports (Gray, 2007) were observed.

Also, social and environmental disclosures by companies operating in different geographical areas, particularly those from developing and developed countries were identified (Williams, 1999). Although, the literature shows companies operating in the UK, Japan, France and Germany are leaders in sustainability reporting around the world (Kolk, 2010; KPMG, 2005; 2008; 2011; Gray et. al, 1995).

Sustainability reporting is a widely used terminology in place of social and environmental reporting⁹. However, whether companies pursue actual sustainability is entirely questionable as argued by Bebbington (2007); O' Dwyer and Owen (2005); Unerman et. al, (2007); Gray (2010); Deegan and

⁹ see O' Dwyer and Owen (2005)

Unerman (2011). Since reporting on sustainability issues appears to be widely considered as an accounting practice, certain procedures could be adopted to improve the quality of disclosure.

2.2.3 Need for more Forms of Accounting

With the growth of social and environmental accounting and disclosure over recent decades, scholars have argued that the practice is highly dysfunctional (Gray, 2010; Bakan, 2004; Hopwood et. al, 2010; Tinker and Gray, 2003; Cooper and Sherer, 1984; Reiter, 1995). The portrayal of social and environmental impacts in reports makes it quite easy for companies to convey 'a false sense of meaningful action on sustainability' (Hoopwood et. al, 2010). Robust social and environmental accountability require expanding from current set of recognised accounting practices and include actual efforts of company's actions on the natural and social systems. As a result, Gray (2002); Roslender (2006); Power (2000) called for change in accounting practices but acknowledged that change is difficult to undertake.

Adams (2002) argued that accountability can lead to better corporate performance, but despite the considerable number of social and environmental reports available today, the quality of these reports are questionable. Reporting only offers a segment of a company's activity, the bigger and clearer picture of a company's activities is never entirely known through reporting (Gray, 2007). Information provided in social and environmental reports is overwhelmingly selective. While there are other wide range of issues that can and should be discussed in the context of

society and environment (Owen et. al, 1997; Bebbington, 2007), companies report on issues they feel should be disclosed not because of the importance of the issues to the society (Gray, 2007).

The criticisms of accounting practices were carefully elaborated by Owen et. al. (1997) who argued that 'deep ecologists' and 'radical feminists' have a credible objection against accounting procedures. 'Deep ecologists' disagree with the acceptable trade-off between economic performance and ecological damage due to the absence of a moral explanation to justify the extinction of ecological species on the basis of associated economic benefits (Deegan and Unerman, 2011; Kovel, 2002; Zimmerman, 1994). Practices and systems that encourage such notion, including accounting, can never serve the best interest of society (Gray et. al, 1996). The 'radical feminists' argue that accounting cannot be considered as a notion that uphold societal values unless 'masculine traits' that drive corporations to rigid competition, assertiveness and success are diluted with feminists elements (Owen et. al, 1997; Deegan and Unerman, 2011). These feminists' attributes like compassion, cooperation, caring for the weak and quality of life can have a greater impact in society (Reiter, 1995; Hofstede, 1984). The idea of sustainability appears to share elements that are closer to 'deep ecologists' and 'feminists' than conventional accounting (Owen et. al, 1997), even though sustainability disclosure is considered as an aspect of accounting.

A realistic step in trying to achieve sustainability is for companies to adopt processes that possess the ability to strengthen reporting practices towards gaining more trust and prominence in the society through

showing efforts of being more accountable. Social and environmental reporting is an accounting apparatus that attempts to symbolise companies' dedication to transparency¹⁰ and responsibility to the society. However, the excess availability of social and environmental reports has not actually strengthened the quality of companies' accountability to society (Bebbington 2001; Unerman et. al, 2007).

Social and environmental/sustainability reporting assurance or social audit (Gray, 2001) is a practice that endeavour to extend corporate accountability to society, this process involves using the views, recommendations and opinions of at least one external independent third party to improve the credibility of the content of sustainability reports. Given the way sustainability reports are generally produced, companies committed to this form of accountability can consider assuring their reports using the services of a qualified, external third party. This could enable companies have a more direct access to obtaining and understanding the needs of relevant groups in society and possibly, ways of overcoming them thereby enhancing a corporation's legitimacy and limiting unwanted public perceptions. ACCA (2004) suggested that assurance is the next stage in the development of social and environmental/sustainability reporting.

¹⁰ GRI (2006) defined transparency as the complete disclosure of information on the topics and indicators required to reflect impacts and enable stakeholders to make decisions and the processes, procedures and assumptions used to prepare the disclosures (p. 6)

2.3 Assurance of Sustainability Reports

The growth of sustainability reporting along with its inherent complexities has led users to cast their doubts on issues like reliability, materiality, completeness, comparability and relevance of social and environmental/sustainability reports (Ball et. al, 2000; Deegan et. al, 2006; Manetti and Becatti, 2009; O' Dwyer and Owen, 2005; Unerman et. al, 2007). In order to enhance the quality and credibility of their reports, companies commission a third party perspective on the information they have provided information about their social and environmental performance. Thus, a market for assurance of sustainability reports was created (Blanco and Souto, 2009). Assurance practices can be used to mitigate corporate risk and enhance credibility through assurance providers role in assessing a company's reporting criteria, gathering evidence and offering independent opinion (Solomon, 2005; Park and Brorson, 2005). The assurance process is based on an agreement between the assurance provider and company management; this defines the extent and depth of every assurance practice (ICAEW, 2010).

The users of sustainability reports must also be considered by both assurance providers and reporting companies in the whole process of assurance. Assurance of social and environmental reports is hence a three-way relationship between management, assurance provider and users (Park and Brorson, 2005). Company management initially prepares social and environmental information, independent assurance providers then use their skills and knowledge to evaluate the information and

produce an assurance statement. This process is primarily carried out to enhance user confidence in the social and environmental report prepared by management (Edgley et. al, 2010; ICAEW, 2010). Some companies hold the position that assuring social and environmental reports have limited use and do not offer additional value (Adams, 1999), while others argue that the absence of quality assurance practices threatens the whole aim of sustainability reporting (Adams and Evans, 2004).

There are initiatives that were developed to encourage sustainability reporting assurance practices to assist companies in being more socially and environmentally responsible and accountable and draw the attention of more stakeholders towards awareness about sustainability implications of corporate activities (Adams, 2004). A notable initiative is the ACCA sustainability reporting awards scheme, where assurance is highly recognised and the criterion that qualifies companies are the completeness and credibility of corporate social and environmental/sustainability reports (O' Dwyer and Owen, 2007; Adams and Evans, 2004).

Completeness is the extent to which material and relevant information to stakeholders are assured after being included in a company's report (O' Dwyer and Owen, 2007). The inclusivity principle supports participation of relevant stakeholders in the process of reporting and assuring social and environmental information is essential to having a complete sustainability report. This is to ensure the scope of reporting includes information that is valued by stakeholders, which can directly influence the scope of assurance procedures. However, it appears that reporting companies

decide on assurance providers, which poses a certain degree of obscurity regarding the credibility associated with assurance procedures (Adams and Evans, 2004; Edgley et. al, 2010).

Credibility is associated with the quality of the final report; two related aspects are considered here- internal and external. Internal credibility is related to the quality of overall management systems and policies; this defines the quality of the external credibility (assurance) companies can provide (Adams and Evans, 2004). Thus, companies with sound internal systems for dealing with social and environmental/sustainability issues are more likely to be able to adopt robust assurance measures to ensure their reports are credible.

Given that social and environmental assurance practice cannot be discharged without reporting on social and environmental performance, there are certain identical characteristics between reporting and assurance. Hence, increase in sustainability reporting has been accompanied by increase in assurance practices of sustainability reports (Blanco and Souto, 2009; Kolk, 2010; Simnett et. al, 2009; Manetti and Becatti, 2009; Perego and Kolk, 2012; O' Dwyer and Owen, 2007). The growth of assurance services in various parts of the world has been noticed and documented.

2.3.1 Sustainability Reporting Assurance Trends

For a practice that began to gain real attention in the late 1990s (Ball et. al, 2000; Blanco and Souto, 2009), literature indicates that assurance of

sustainability reports has gradually been evolving into quite a regular practice amongst relevant practitioners. However, after undertaking a thorough search on studies that examined assurance of sustainability reports, it became clear that few studies have investigated the practice and even less have considered its trends. Studies by professionals and academic researchers have outlined the growing nature of assurance services, some of which are considered below.

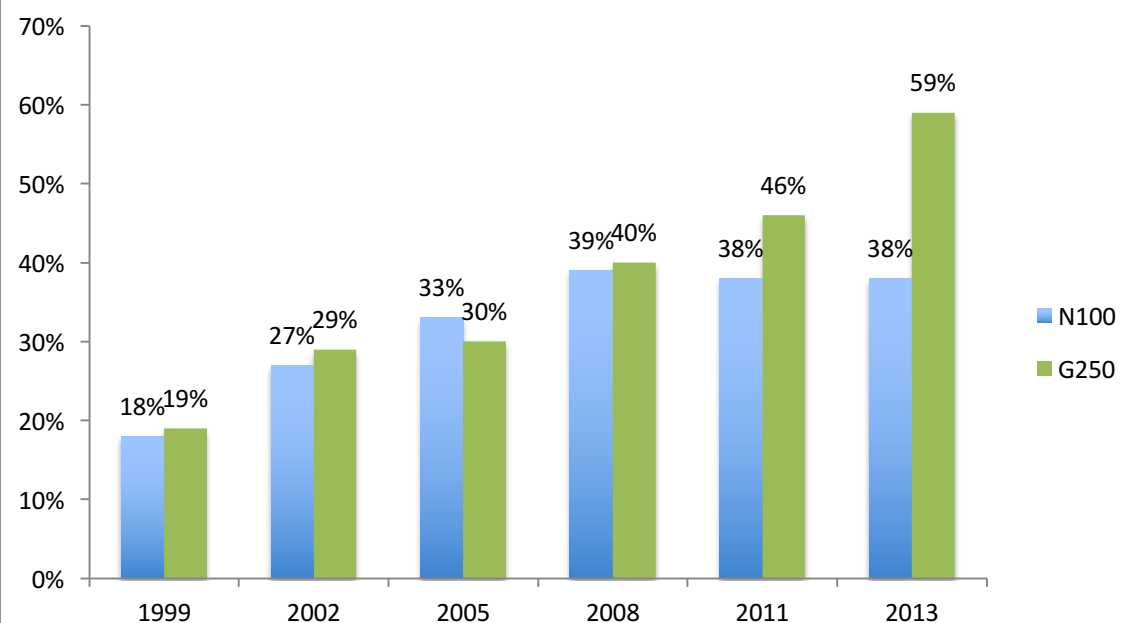
Corporate Register (2008) conducted a study of more than 17,000 published sustainability reports across 103 countries from 1992 to 2008. Results show there was a general increase in assurance services during the study period. However, it was not a general ascending pattern, the period of growth was between 1992 to 1998 and 2003 to 2008. There was a period of assurance services decline between 1999 to 2003, this period according to Corporate Register (2008) was believed to be a time when companies generally delayed assurance services in order to improve the accuracy and reliability of their reporting systems. Figures towards the end of the study indicate that assurance services witnessed an annual growth of 20%.

Findings also show that assurance services experienced steady growth in Europe throughout the study period (Corporate Register, 2008). In 2007, Europe was responsible for publishing around 64% of the 650 assurance statements that were released that year making Europe the highest contributor by a margin. North American counterparts were only responsible for 7.5% of assurance statements, even though reporting is developed in the region. Another area of interest was Asia appearing to

have the second largest market in assurance services with 16% in 2007, even though the first set of assurance statements from Asian companies were issued in 1999. Corporate Register (2008) considered Asia as an area of real assurance market growth potential, where Japan is viewed as the leading country. Europe is the 'most significant region for the provision of external assurance' with UK being the leading nation.

KPMG's international survey of corporate responsibility reporting (1999; 2002; 2005; 2008; 2011; 2013) also examined the extent by which companies commission assurance services. This was investigated using two samples: the top 250 of the Fortune Global 500 companies (G250) and top 100 companies by revenue from selected nations (N100). Figure 2.1 shows the assurance performance of companies in the sample study period.

Figure 2.1 assurance trends



Source: KPMG International Corporate Responsibility Survey 2011; 2002; 2013

Results from the surveys showed a general but gradual increase in assurance services of the study periods. The only decline in assurance practices was observed in the N100¹¹ sample that showed a 1% decline in the final 2011 survey. The G250 showed an increase of at least 6% in every survey except the 2005 survey that indicated only a 1% growth. The highest increase in assurance by the G250 occurred in the latest survey with a growth of 13%. Both the G250 and the N100 have demonstrated an indication of gradual acceptance of commissioning assurance that has occurred within the 14-year study period.

Perego and Kolk (2012) examined assurance services trend of Multinational Corporations (MNCs) in the first half of the Fortune Global 500 list in 1998 for a 10-year period (1999 to 2008). Data was collected at three-year intervals in 1999, 2002, 2005 and 2008 only from companies that survived the full study period. Findings indicate a general rise in assurance services in the study period, which rose from 21.4% in 1999 to 55.8% in 2008. Japan was the country with the highest number of assurance statements in the sample closely followed by UK. Perego and Kolk (2012) argued that the government rules on social and environmental disclosure and assurance in Japan could be viewed as the reason why they have taken the practice so seriously whereas sustainability reporting and assurance remains a voluntary practice in the UK.

The studies by O' Dwyer and Owen (2005 and 2007) also suggest there is a trend of gradual growth in assurance practices. They examined reports

¹¹ There is an increase in the number of N100 countries in every study

that were short-listed for the ACCA UK and European Sustainability Reporting Awards in 2002 and 2003 for the 2005 and 2007 studies respectively. They observed that up to 59% and 68% in the 2005 and 2007 studies of the so-called best corporate social and environmental reports in Europe and UK (predominantly large corporations) are accompanied by some form of assurance statements.

The trend in assuring sustainability reports has been examined over recent years and the contribution of such studies has shown a general pattern of gradual growth in all studies. These studies have also utilised a number of different samples and have aided our understanding of assurance services in the last 10 to 15 years.

2.4 Determinants of Sustainability Assurance

All form of reasonable actions, including corporate actions, are driven by certain rationales. Assurance of sustainability reports does not have specific pre-defined reasons to explain why companies are committed to the practice (Park and Brorson, 2005; Adams and Evans, 2004; Jones and Solomon, 2010). But scholars (Perego and Kolk, 2012; Kolk and Perego, 2010; Perego, 2009; Simnett et. al, 2009; Edgley et. al, 2010) have outlined some factors that arguably influences companies to assure their sustainability reports. Since the adoption of sustainability reporting can be attributed to pressures of compliance with societal norms (Unerman et. al, 2007), these pressures can be instrumental in influencing companies to commission assurance services on their sustainability reports.

Kolk and Perego (2010) examined factors that are associated with voluntary adoption of sustainability reporting assurance using an international database of the top half of the Fortune Global 250 firms with sustainability reports from 1999 to 2005. Data was collected after every three years – 1999, 2002 and 2005 – and considered only companies that survived the whole study period, a total of 212 companies were found to meet these criteria and were included in the analysis. They classified companies as those emerging from common law or code law countries (La Porta et. al, 1997). Common law countries have a more shareholder orientation model¹² of corporate governance, while code law countries have more of stakeholder orientation¹³ corporate governance model (Simnett et. al, 2009). They concluded that companies domiciled in stakeholder oriented (code law) countries have a better possibility of assuring their sustainability reports. Also, the legal environment of a company significantly influences the demand level for assurance services. They suggested that assurance services could act as a substitute in countries where institutional mechanisms are weak or absent, but the decision to adopt assurance significantly depends on the level of sustainability awareness present in that country (Kolk and Perego, 2010).

The study by Simnett et. al. (2009) provided empirical evidence on factors influencing the likelihood that companies will assure their sustainability reports. Findings shows that companies with a higher need to enhance their credibility are more likely to have their sustainability reports assured. Companies with ‘highly visible industrial activity’ and those with a

¹² US, UK, Canada, Australia, Hong Kong

¹³ Germany, Japan, Brazil, Italy, France

perceived larger 'social footprint' are more likely to assure their sustainability reports. The level and extent of their activities is under scrutiny as a result of its impact on people and the environment. Thus, there is high expectation on the companies to go beyond sustainability disclosure by assuring their sustainability claims.

They observed that companies operating in stakeholder oriented (code law) nations are also more likely to commission assurance services; this position is consistent with the findings by Kolk and Perego (2010) mentioned above. They also found that companies located in countries with strong legal systems are more likely to assure their sustainability reports, this appears to be in contrast with one of the findings by Kolk and Perego (2010) about the substitute role of assurance in nations with weaker legal systems. However, Simnett et. al. (2009) acknowledge that the significance of the position that companies in nations with stronger legal systems appear to assure sustainability reports has decreased annually during the course of their study.

2.5 Features of Assurance Statements and Services

As assurance of sustainability reports are increasingly being practiced, key characteristics began to emerge. Studies (Simnett et. al, 2009; Blanco and Souto, 2009; Perego, 2009; Manetti and Toccafondi, 2012; O' Dwyer and Owen, 2005; 2007; Ball et. al, 2000) have examined assurance statements and came up with features and patterns that appear in various statements. Some of the main characteristics of assurance based on the elements considered in previous studies include assurance providers,

types of assurance engagements, assurance standards, assurance procedures and conclusion of assurance engagements. Each of these aspects are discussed below.

2.5.1 Assurance Providers

Sustainability assurance is viewed as a means of ensuring credibility and adding value to content of sustainability disclosure (Edgley et. al, 2010; Adams and Evans, 2004; Jones and Solomon, 2010; Simnett et. al, 2009). The added value offered by assurance statements can perhaps be determined by the type and characteristics of assurance providers. All companies that intend to assure their social and environmental/sustainability reports must consider who will produce their assurance statement. A valid assurance provider must be independent from management and must play no role in preparing the particular social and environmental report that will be assured; if not, the main objective of assurance cannot be achieved (Ball et. al, 2000). Some assurance providers undertake agreed-upon procedure services - where the assurance provider with the approval of management, perform some certain procedures and report on findings without providing any independent opinion on the outcome of the procedure carried out (ICAEW, 2010). This procedure service is usually intended for internal use and as a result, an assurance provider who has performed agreed-upon procedure service for a specific company is not in a position to provide credible assurance to the publicly intended social and environmental information of that particular company for the operating year (ICAEW, 2010). The study by Deegan et. al. (2006) carefully investigated the

respective responsibilities of assurance providers and reporting companies in each of the assurance statements they included in their sample data.

Assurance providers are broadly classified in two groups: professional accounting bodies and social and environmental experts (O' Dwyer et. al, 2011; Power, 1996; Manetti and Toccafondi, 2012; Perego, 2009). The accounting bodies providing these services are mainly the Big-4 accounting firms, due to their experience and competence in providing financial assurance services around the world (Simnett et. al, 2009; Manetti and Toccafondi, 2012). The social and environmental specialists on the other hand have a good understanding of social and environmental issues and thus are expected to utilise a better approach in handling the subject matter, which is pertinent in this form of assurance (Perego, 2009). However, there are complexities in selecting assurance providers given that the Big-4 accounting firms provide high quality assurance in terms of reporting format and use of procedures. Meanwhile social and environmental experts provide high quality assurance in terms of providing independent opinion and recommendation (Perego, 2009).

Boele and Kemp (2005) argued that financial accounting approaches to social auditing should not be entirely ignored because social auditing grew from accustomed financial accounting and auditing principles. However, financial accounting and auditing principles should not be entirely adopted at the expense of important developing approaches in social auditing. The choice of assurance provider is a major decision considering

that assurance practice is an extension of increasing stakeholder accountability by practicing organizations (Unerman, et. al, 2007).

2.5.1.1 Empirical Studies on Assurance Providers

Studies in relation to assurance services have steadily grown over the past decade and those that considered different categories of assurance providers have grown as well (Manetti and Toccafondi, 2012; Edgley et. al, 2010; Perego and Kolk 2012; 2010; Perego, 2009; Simnett et. al, 2009; O' Dwyer and Owen 2007; 2005; Deegan et. al, 2006; Ball et. al, 2000). Identifying categories of assurance providers assist in observing various associated elements of assurance engagements (Perego, 2009; Simnett et. al, 2009).

The study by Manetti and Toccafondi (2012) examined sustainability reporting assurance of 160 international corporations that complied with the Global Reporting Initiative (GRI) guideline, sample data obtained from the GRI database as of 31 December 2010. They observed that accountant assurance providers, mainly Big4, were responsible for 66% of the assurance statements in the sample. This is in contrast with the international examination of assurance statements from 31 countries over three years (2002 to 2004), using a sample sourced from Corporate Register, GRI database and Dow Jones Sustainability Index (DJSI) by Simnett et. al. (2009). Findings indicate that, of the 655 companies with assurance statements, accountants produced 40% with other assurance providers producing 60%. However, individual accountant assurance providers have conducted more assurance engagements than many other

non-accountant assurance providers. The assurance statements produced by PwC was 14% of the sample, while KPMG and Ernst and Young produced 11% and 10% respectively. The highest contributing non-accountant assurance provider produced only 5% of the entire sample (Simnett et. al, 2009).

The Corporate Register (2008)¹⁴ study identified three broad groups of assurance providers: accountants, consultants and certification bodies. These three assurance providers increasingly appear to be the leaders in assurance services as they accounted for 65% of the market share in 1997, this figure rose to a total of 89% in 2007; shared as 40%, 25% and 24% for accountants, certification bodies and consultants respectively. The KPMG (2011)¹⁵ study also showed that accountants own the highest market share in sustainability assurance with 70% of the G250 and 64% of the N100. However, figures in the 2008 study remained fairly the same with 70% for the G250 and 65% for the N100 (2008), which means there was a 1% decline in the 2011 study. Although, the 2008 study registered a considerable improvement by accountants in the market share from the 2005 study in both the G250 and N100 samples, which was 60% and 58% respectively (KPMG, 2005).

According to the trends of assurance provision, accountants appear to be ever present in assurance of sustainability disclosures. The recognition of accountants in assurance has spread across almost every country associated with the practice (KPMG, 2011; Simnett et. al, 2009; Corporate

¹⁴ An examination of global CSR reports issued from 1997 to 2007

¹⁵ Analysis based on Corporate Responsibility reports of the 250 largest companies in the world (G250) and 100 largest companies each from 34 countries

Register, 2008), thus, being considered as the leaders in assurance provision (O' Dwyer, 2011). However, other categories of assurance providers remain active and are gradually growing, particularly, the consultants and certification bodies (Perego and Kolk, 2012; KPMG, 2008; Corporate Register, 2008). Stakeholder panel¹⁶ has been discussed within the sustainability assurance literature (O' Dwyer, 2011)¹⁷ but Corporate Register (2008) referred to stakeholder panel as 'fringe' due to its limited usage.

The increasing presence of assurance providers could be influenced by the efforts of some recognised third parties. The support from particular third party groups have contributed in promoting assurance practices. These third parties have issued standards and guidelines to improve the way assurance providers undertake mainstream assurance with more uniformity and efficiency.

2.5.2 Standards and Guidelines on Sustainability Assurance

Even though assurance remains a voluntary activity, its perceived general importance and value enabled renowned bodies to produce guidelines in an attempt to improve its effectiveness and efficiency. The generally accepted principles and guidelines aim to assist in standardizing reporting and assuring disclosed corporate social and environmental performance information (Manetti and Becatti, 2009). The apparent inconsistencies of

¹⁶ GRI (2006) considered stakeholder panels as one of the approaches for external assessment of sustainability reports

¹⁷ Formal sustainability assurance and stakeholder panels are not the same, however, they could aid each other.

corporate sustainability reports were limiting the potential of assurance statements as a means of promoting transparency and accountability to stakeholders, thus the rigour and usefulness of these services and reports must be improved (Kamp-Roelands, 1999). One of the major problems of assurance process from its inception was the absence of standards to guide and provide a point of reference for practitioners (Unerman et. al, 2007). But currently, financial accounting authorities in some countries like Australia, Germany, Sweden and France have their standards for assuring sustainability reports (Manetti and Becatti, 2009). Also, the call for the need of standardizing assurance practices was answered by some professional bodies that produced international frameworks and principles for assuring sustainability reports (O' Dwyer and Owen, 2007), some of these professional bodies are The International Federation of Accountants (IFAC), responsible for ISAE3000 and AccountAbility, responsible for AA1000AS. These bodies have significantly contributed to the global development of assurance practices of sustainability reports.

2.5.2.1 ISAE3000 by International Auditing and Assurance Standards Board (IAASB)

The International Standard on Assurance Engagements 3000 (ISAE3000) 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' was produced under the authority of the International Auditing and Assurance Standards Board (IAASB), which is the auditing and assurance service body operating under the International Federation of Accountants (IFAC). The main purpose of the guideline is to provide guidance to practitioners on assurance engagements other than

review or audit of historical financial information. The current ISAE3000 became effective on 1 January 2005 and required all professional accounting networks to be in compliance with the guideline when discharging assurance. An exposure draft was released in 2011 containing details of an improved version of the guideline.

A key feature of the ISAE3000 is the consideration of materiality, relevance and completeness. These three attributes must be considered in fulfilling the needs of intended users based on a predetermined scope (subject matter) that has been agreed between the assurance provider and the reporting company. The ISAE3000 seeks to serve public interests in a way that the information assured is relevant to intended users. However, the criteria used to review performance are based on a system developed by the reporting organization, but assessment and professional judgment lies with the assurance provider.

The ISAE3000 specifically recommend elements of independence and competence of assurance providers, evidence gathering, risk consideration in reviewing reporting company's performance and offering professional opinion. This makes the ISAE3000 guideline diverse and is common within assurance engagements carried out by accountants (Blanco and Souto, 2009). The IAASB also issued the ISAE3410 standard specifically for assurance engagements on greenhouse gas statements, effective from 30 September 2013. Another assurance guideline issued by AccountAbility is quite different in focus and has attracted the attention of many in the assurance service field.

2.5.2.2 AA1000AS by AccountAbility

The Institute of Social and Ethical Accountability (ISEA), famously known as AccountAbility is a global independent organization dedicated to corporate responsibility and sustainability development since 1995. AccountAbility assists companies to align social, ethical and environmental accountability into their organizational structures. Their unique approach to achieving this is through providing strategic advisory services, engaging in leading-edge research and most importantly provision of internationally recognised standards. The series of standards produced by AccountAbility are referred to as AA1000 series, with the first standard issued in November 1999 (Reynolds and Yuthas, 2008). The AA1000 series today consists of AA1000 Accountability Principles Standard- AA1000APS (2008), AA1000 Assurance Standard- AA1000AS (2008) and AA1000 Stakeholder Engagement Standard- AA1000SES (2005).

A particular principle that made the AA1000 standards stand out from others is the specific consideration to stakeholder needs. The AA1000 standards prioritize stakeholders concerns with the aim of encouraging companies to become responsible agents of the society (Adams and Evans, 2004). The AA1000AS, in particular, considers three important parameters (all in respect of stakeholders) that should be taken into account when assuring corporate sustainability reports: materiality, completeness and responsiveness (Blanco and Souto, 2009). The materiality aspect deals with the extent to which a company's

sustainability report contains information required and valued by stakeholders, which they can use to make informed judgements. Completeness is the extent to which a company's report has identified and understood all issues that are classified as relevant to stakeholders. The inclusivity principle is an integral part of having a complete report. Responsiveness requires evaluation of how a company has responded to concerns demonstrated by stakeholders and how adequately these issues have been reported (O'Dwyer and Owen, 2007).

The AccountAbility standards entirely support the need for companies to actively engage external stakeholders in the process of reporting and assuring sustainability reports. The motive here is to assist both companies and their stakeholders in delivering a higher level of economic, social and environmental responsibility when conducting business duties (Adams and Evans, 2004). As a result, a growing number of companies as well as researchers are employing the AA1000 methodology (O'Dwyer and Owen, 2007). Another standard that is adopted by many companies around the globe was produced by the global reporting initiative.

2.5.2.3 The Global Reporting initiative (GRI)¹⁸

GRI is a multi-stakeholder network based organization established in 1997 by the Coalition for Environmentally Responsible Economies (CERES), in collaboration with the United Nations Environment Programme (UNEP); further valuable inputs were provided by Tellus Institute, ACCA, World

¹⁸ The Global Reporting Initiative does not produce guidelines on sustainability assurance but it is the most regarded guideline on sustainability disclosure and endorses sustainability reporting assurance

Business Council on Sustainable Development (WBCSD) and other relevant corporate entities from around the globe. The main goal of GRI is to provide globally applicable and acceptable guidelines on disclosure of environmental, social and governance performance. These guidelines are developed through a multi-stakeholders consensus drawn from professional institutions, global business, academic, labour and civil society. GRI is committed to continuously improving its framework, the first version of the guidelines was released in 2000, and subsequently the second version was issued in 2002, which was named G2. An updated version was released in 2006, and is known as the third generation guidelines G3 (Deegan, 2009), which have been expanded to the latest version called G3.1 in March 2011. The latest version of the guideline was published in 2013, known as G4 sustainability reporting guidelines.

The GRI guidelines are not developed to guide assurance engagements, the guidelines are particularly designed to assist companies in sustainability disclosure. However, the guideline clearly states that ' GRI recommends the use of external assurance' (GRI G4, 2013; p. 13). The GRI reporting guidelines have brought much improvements to social, environmental and sustainability reporting amongst numerous companies as it is the most widely used framework on sustainability reporting around the world (Deegan, 2009). More than 60% of Global 1000 companies voluntarily adopt the GRI framework on sustainability reporting (Reynolds and Yuthas, 2008). The GRI guidelines are categorically a different type of guideline from the AA1000AS and the ISAE3000 but they aim to produce a 'balanced and reasonable' report (O' Dwyer and Owen, 2007). However,

recommendations in the GRI guidelines can be used along with the AA1000AS and ISAE3000 assurance guidelines.

2.5.2.4 Empirical Studies on Assurance Standards and Guidelines

Considerations of adopted assurance guidelines appeared in a number of studies that explored assurance services. Like other elements of assurance engagements, only a handful of studies investigated contents of assurance statements and fewer included guidelines used by assurance providers in their examination process. As a result, relevant studies in literature that can contribute to this section are not abundant (Manetti and Toccafondi, 2012; Perego and Kolk, 2012; Manetti and Becatti, 2009; O' Dwyer and Owen, 2005; 2007; Ball et. al, 2000; KPMG 2005; 2008)

O' Dwyer and Owen (2005)¹⁹ is only the second study²⁰, after Ball et. al. (2000), to examine assurance guidelines. They observed the adoption of the most sought after guidelines, the AA1000 Assurance Standard and ISAE3000 amongst disclosed assurance statements. They found that 29% of assurance providers clearly indicated a particular standard they complied with, predominantly the AA1000 assurance standard. They also observed that consultant assurance providers were more likely to adopt the AA1000AS, where only few adopted the ISAE3000. The low level of compliance with the ISAE3000 could be attributed to the age of the standard; the ISAE3000 was effective from 1st January 2005 (ISAE3000, 2004) and was released around the year their study was published (in

¹⁹ Examined assurance statements of sustainability reports of companies shortlisted for the 2002 ACCA UK and European Sustainability Reporting Awards scheme

²⁰ To the understanding of the researcher at the time of writing this thesis

2005). Whereas the then AA1000AS was published in 2003, quite a while for practitioners to adopt its elements.

In a succeeding study by O' Dwyer and Owen (2007)²¹, they observed that 79% of assurance providers made reference to assurance guidelines. The AA1000AS accounted for 57% of the assurance guidelines used in the sample, where the majority of the assurance providers that complied with the AA1000AS were consultants with 69%. They concluded that the AA1000AS is 'gaining more prominence' among consultant assurance providers but accountants are adopting the guideline to some degree (O' Dwyer and Owen, 2007), although most of the assurance statements by accountants in the sample complied with the ISAE300 guideline.

The KPMG international survey (2008)²² outlined the compliance level of assurance standards amongst assurance providers of G250 and N100 companies. Table 2.1 below provides the details.

Table 2.1 Assurance standards trends

| Standards | 2005 | | 2008 | |
|-----------|------|------|------|------|
| | G250 | N100 | G250 | N100 |
| AA1000AS | 18% | 10% | 33% | 36% |
| ISAE3000 | 24% | 14% | 62% | 54% |

Source: KPMG International corporate responsibility survey 2008

²¹ The study examined 51 sustainability reports shortlisted for the 2003 ACCA UK and European Sustainability Reporting Award scheme

²² Sample based on 250 largest companies in the world (250) and the 100 largest companies by revenue each from 22 countries

The compliance of both AA1000AS and ISAE3000 guidelines by G250 and N100 companies has improved from 2005 to 2008 as shown in Table 2.1 above. The growth of the ISAE3000, in particular from 2005 to 2008 again, suggests the dominance of accountants in assurance services since they are more likely to use the standard. The growth in adoption of the AA1000AS is also worthy of note especially due to the number of different assurance providers that used the standard mostly appear to be categorized as consultants. Unlike the accountants that are basically restricted to the identified Big4. Subsequent KPMG surveys (2011 and 2013) did not provide an analysis of standards used by assurance providers in both samples. This would have provided a better picture that indicates the most recent status of standards adoption in assurance engagements, especially with previous data from the same study sample using the same methodology.

The study by Manetti and Toccafondi (2012)²³ investigated assurance statements from the GRI database, which showed that the AA1000AS and the ISAE3000 were the most commonly used assurance guidelines. The majority of assurance procedures that used more than one assurance guideline utilised a combination of AA1000AS and ISAE3000. Only 10% of the entire sample failed to refer explicitly to a renowned assurance guideline.

The increase in complying with standards and guidelines in assurance services has assisted in improving the general acceptance of practising

²³ Using a sample of sustainability reports with assurance statements from the GRI database as of 31st December 2010

sustainability reporting assurance. These guidelines are continuously improved in an attempt to cover emerging sustainability issues. As the rate of compliance is increasing, the rate of non-compliance is decreasing as indicated in the most recent study by Manetti and Toccafondi (2012). The practice of including guidelines in assurance procedures appears to be an aspect that will continue to grow.

2.5.3 Assurance Procedures

The availability of assurance guidelines assists assurance providers in carrying out various tasks when discharging assurance engagements, some of which are reflected in assurance statements. Assurance procedures demonstrate to users of the report that particular exercises were undertaken to acquire evidence in the process of meeting the assurance objectives. The study by Corporate Register (2008) identified a number of tasks assurance providers undertake when assuring sustainability reports. Their analysis indicates that 88% of assurance statements in the sample provided information about assurance work undertaken. The most commonly used assurance task in obtaining assurance evidence is interviews with management, this occurred in 80% of assurance statements in the sample. Other tasks include examining internal data systems (73%), analysing internal documents (around 70%), fieldwork (around 50%), external document review 21%, and the least task that was carried out is external interviews, occurring in 12% of the sample.

Deegan, Cooper and Shelly (2006) investigated assurance statements of UK and European companies from the Certified Practicing Accountants

(CPA) Australia database that was constructed by the authors in 2003²⁴. Their findings indicated similar observations identified in the Corporate Register (2008) study. Only a small fraction of the assurance providers failed to provide details about assurance tasks undertaken where 96% of UK and 81% of European companies disclosed assurance procedures employed. Also, interviews, discussions and inquiry with management and staff appear to be the most common assurance task undertaken in both samples, which occurred in 81% and 45% of UK and European samples respectively. Again, little attention was shown in obtaining assurance data from external parties with 10% and 1.7% in UK and European samples respectively.

The study of assurance statements by O' Dwyer and Owen (2007) showed a slightly different result. Their analysis indicated that examining data collection systems appears to be the most used method of obtaining data by assurance providers, this occurred in 90% of the sample. Interviewing management and staff was also high with 69%, site visits observed in 48% of the sample. The least assurance procedure, like the above studies, was external interviews with 17%, slightly more than the above studies.

Assurance procedures do not necessarily cover all aspects of corporate sustainability reports as illustrated by Deegan et. al. (2006) and Corporate Register (2008). Deegan et. al. (2006) argued that assurance coverage could be determined by the line of business of reporting company, social, environmental or economic performance and specific and/or significant related incidents. Corporate Register (2008) showed that assurance

²⁴ A total of 170 sustainability reports were analyzed for the study

engagements covered contents of the entire sustainability reports in 56% of the sample, while selected contents of the reports were assured in 46%.

Coverage of assurance engagements as identified in the scope of the engagement and the various aspects of assurance procedures undertaken appear to be important considerations that can guide assurance providers in offering a strong conclusion (Ball et. al, 2000; O' Dwyer and Owen 2007).

2.5.4 Assurance Conclusions

Conclusion and opinion of the assurance provider is arguably the most essential aspect of an assurance engagement (Manetti and Toccafondi, 2012; Deegan et. al, 2007; Ball et. al, 2000; Corporate Register, 2008; O' Dwyer and Owen, 2007; ACCA, 2004). Conclusions are the perspectives of assurance providers by using their skills and professionalism to investigate claims made in reports and conveying their findings. The Corporate Register (2008) study reveals only 8% of assurance statements had no formal conclusions. Content of the conclusions have so far varied across assurance providers (O' Dwyer and Owen, 2005; 2007; Ball et. al, 2000; Deegan et. al, 2006), using a combination of various words to describe the accuracy of the reported sustainability information. This position is not appreciated by Deegan et. al. (2006) because the wide array of the wording used in conclusions only add to the number of interpretations users can generate, which is not very helpful in an area that is already very complex.

Assurance providers do not only present their opinion, they also provide observations on the sustainability performance of the company and recommendations as part of the conclusion of an assurance statement. The Corporate Register (2008) study showed that 61% and 53% of assurance providers offered observations and recommendations respectively. Deegan et. al. (2006) discovered that 42% and 12% of assurance providers for UK and European companies respectively outlined observations, while the majority of UK companies' assurance statements and 25% of European's provided recommendations on areas to improve.

In summary, features of assurance statements all contribute in promoting the value of assurance services. Hence, features of assurance practices must be thoroughly understood for the appropriate measures to be put in place that will assist in its development. Since a considerable number of companies assure their sustainability reports as indicated above, there must be associated benefits of extending assurance services that drive companies to consider the practice.

2.6 Benefits of Sustainability Reporting Assurance

Companies make the decision to assure their sustainability reports and in the process commit valuable resources. It is, therefore, expected that companies have something to gain from assurance services. There are studies that have investigated the benefits of assuring sustainability reports (Jones and Solomon, 2010; Park and Brorson, 2005; Edgley et. al, 2010; Kolk and Perego, 2010; Simnett et. al, 2009; Perego, 2009;).

Adams and Evans (2004) argued about the potential for companies to benefit from assurance internally and externally. Companies will learn and improve how to collect, manage and disclose sustainability related data (internally). Companies will also get better at communicating with stakeholders as well as the additional feel of credibility of their reports if accompanied with an assurance statement (externally). This will enable users to make judgements about the sustainability performance of companies with a reduced level of skepticism.

Interview evidence in particular has contributed to building our understanding of the drivers and benefits of assurance from a different perspective. The studies by Jones and Solomon (2010); Park and Brorson (2005) elicited the views of company representatives, while Edgley et. al. (2010) examined the perspectives of assurance providers to explore the advantages and rationale for sustainability reporting assurance.

Findings from interviews provided support that sustainability reporting assurance enhances credibility. Jones and Solomon (2010) showed that lack of trust among stakeholders has shaped the emergence of corporations to the realisation that assurance is indeed a useful tool for convincing stakeholders that corporate claims are accurate. Assurance services demonstrate that companies are taking steps to improve management's accountability and transparency to stakeholders by breaking down the barriers between corporate management and external parties (Edgley et. al, 2010), thus, reported information will be viewed with added credibility. As many large companies engage in sensitive issues and are under constant public scrutiny, gaining credibility through

assurance is essential for their continued operations (Park and Brorson, 2005). As such, sustainability assurance is 'no longer just an option', which makes the question 'should we assure' our sustainability report less relevant (KPMG, 2013)

Another benefit is the value companies' gain by assuring their sustainability reports; this value is quite easily achievable if credibility is secured (Jones and Solomon, 2010). The value gained by companies as a result of assurance assists them in improving their brand reputation (Edgley et. al, 2010). Also, disclosing valuable information informs stakeholders that they are viewed as an important part of the reporting company plans and can contribute to the development of the business, thus promoting relationship with stakeholders (Edgley et. al, 2010)

Park and Brorson (2005) provided interview evidence to show that companies introduce sustainability reporting assurance in order to improve their reporting systems. Assurance enable companies to compare their disclosed reports with issues outlined in the assurance statement and then implement measures on how to ensure subsequent sustainability reports contain improved information (Jones and Solomon, 2010). This assists in eliminating gaps between reporting companies and assurance providers. Also, assurance encourages stakeholders to offer comments and feedback; this can promote collaboration between companies and stakeholders and enable companies to know particular issues that are of concern to relevant stakeholders. Companies can take note of the issues and make sure that their subsequent report addresses such issues.

Assurance does not only improve reporting systems but also improves management systems (Edgley et. al, 2010). Companies will have to adopt regular management systems that produce accurate information to be included in sustainability reports. These systems should also be able to prove useful during the assurance exercise, by assisting in confirming previously disclosed information.

Since assurance is a practice that attempts to promote relationship between companies and stakeholders, another benefit of assurance is providing an opportunity for companies to relate closely with relevant stakeholders. Assurance can be perceived as an attempt by companies to be more accountable; this can enable stakeholders to consider their efforts and build trust with the companies (Edgley et. al, 2010). A productive and continued trust between companies and stakeholders is a sound basis for a strong licence to operate. The collaboration between stakeholder and companies can be an innovative approach that can be beneficial to both parties (Sloan, 2009). However, as aspects of corporate social responsibility remain voluntary, decisions about assurance are at the discretion of the reporting entity, which has led to severe questions on the quality of its practice.

2.7 Concerns about Sustainability Assurance Practices

With the associated benefits of assurance, literature has shown that there are issues that drive companies against commissioning assurance on sustainability reports (Jones and Solomon, 2010; Ball et. al, 2000; Owen

et. al, 2000; O' Dwyer and Owen 2005; 2007; Unerman et. al, 2007). These drawbacks of assurance services can be considered as factors influencing the slow adoption level of the practice, which leads to crucial questions about the real value of assurance and its ability to promote viable transparency and accountability.

The contribution of literature in sustainability reporting assurance shows that the concerns can be divided into two groups. The first group outlines concerns obtained from direct contact with corporate representatives that are associated with sustainability issues of their respective companies. So far, few studies have investigated concerns about assurance services in this manner, as such, the section will focus primarily on the studies by Jones and Solomon (2010)²⁵ and Park and Brorson (2005)²⁶.

The second group of concerns constitutes those obtained from meticulous observations of published assurance statements. The content of assurance statements were examined by researchers and they identified elements within the statements that appear to cast doubt on certain aspects of the assurance engagements and statements. This approach is more prevalent in sustainability assurance practices research (Lockett et. al, 2006), and will focus on a higher number of studies, particularly, Ball et. al. (2000); Manetti and Toccafondi (2012); O' Dwyer and Owen (2005 and 2007); Manetti and Becatti (2009); Deegan et. al, (2006); Perego (2009).

²⁵ Interviewed 20 corporate representatives on sustainability reporting assurance

²⁶ Conducted interviews with representatives of 28 companies

2.7.1 Interview Concerns

Interview evidence provided by Jones and Solomon (2010), Urzola (2011) and Park and Brorson (2005) showed that the financial implication (cost) of assurance is one of the main reasons why companies do not seek assurance services. Companies interviewed by Park and Brorson (2005) stated that 'the fee to the assurance provider is too high' (p. 1100), where a company mentioned that the assurance fee was more than their reporting budget. The views by a UK corporate representative in the study by Jones and Solomon (2010) expressed a similar standpoint by stating that assurance 'would cost more than producing the report in the first place'. The constraint is not only limited to cost as company representatives indicated that they will be required to do more in preparation for assurance procedures by stating that 'the demand on management and time to handle and manage these independent audits would be enormous' (Jones and Solomon, 2010, p. 27).

Another concern for assurance engagements is that some company representatives argue that the practice does not add value to sustainability reporting (Park and Brorson, 2005). The study by Jones and Solomon (2010) found evidence to support this position from a corporate representative that said 'there are very different levels of audit of verification process and I'm not sure how many of them actually add real value' (p. 28). Companies argued that what they achieved so far by reporting on sustainability issues is enough to demonstrate the extent of their credibility stakeholders require (Park and Brorson, 2005). Part of this argument is that assurance is still in a developmental stage, this makes

companies unsure and reluctant about committing themselves to such a practice.

This leads to another concern about assurance that sustainability issues are too complex and challenging to be considered for assurance (Jones and Solomon, 2010). The scope of sustainability issues and the fast evolving nature of its required reporting contents drives companies believe that sustainability reporting assurance is yet to be considered as an important practice (Park and Brorson, 2005). The study by Jones and Solomon (2010) reinforced this view when they found that companies feel assurance is unrealistic in the short term. Companies are concerned that the insufficiently developed nature of assurance processes and methodology of collecting and checking data cannot cope with the changing sustainability challenges they are facing.

Companies might decide not to adopt sustainability reporting assurance because they are simply not pressurized to commission the engagement (Park and Brorson, 2005). Some companies are constantly being scrutinized and are expected to engage in a number of sustainability issues including assurance, probably due to their size or industry of operation, while other companies are not experiencing such level of scrutiny. These companies might feel obliged that assurance services is not relevant to them because they are under little or no pressure from key stakeholders.

2.7.2 Documents Review Concerns

Issues of overall assurance quality were raised by numerous scholars like Ball et. al. (2000), Perego and Kolk (2012), Owen et. al. (2000), O' Dwyer and Owen (2005 and 2007), Unerman et. al. (2007), Adams and Evans (2004), Manetti and Becatti (2009), Park and Brorson (2005) and Deegan et. al. (2006). They identified some significant question marks; most prominent are the assessor's independence and the level of managerial control over the assurance process. Many academic researchers acknowledge this standpoint where Owen et. al. (2000) argued that managerial control enable company management use the sustainability reporting and assurance process to primarily enhance corporate image rather than being transparent and accountable to their stakeholders.

Other issues of concern include: differences in title of assurance statements (Unerman, 2007), variability in addressing the assurance statements and assurance provider's competence (O' Dwyer and Owen, 2007), clarity in identifying scope of the assignment (Adams and Evans, 2004), significant variance in opinion offered and conclusion (CPA Australia, 2004). In general, assurance statements vary significantly and this promotes the inability for users to specifically understand, draw comparisons and make a well-informed judgement about sustainability reports (Deegan et. al, 2006).

These concerns are all somehow influenced by the presence of managerial control which thus renders the report incomplete thereby greatly affecting its credibility (Smith et. al, 2011; Owen et. al, 2000). Assurance

statements emerged as a result of stakeholder demand for reliable and credible information about a company's performance on social and environmental issues. If the assurance statement cannot convince stakeholders that the report is a true representation of the company's social and environmental efforts, achievements and future intentions, then the whole objective of reporting has been undermined (O' Dwyer and Owen, 2005). This implies stakeholders have a role in assuring sustainability reports as argued by Adams and Evans (2004); Boele and Kemp (2005) who criticized assurance processes without adequate stakeholder involvement. Managerial capture threatens the main aim of reporting which is to inform stakeholders about corporate activities. Monaghan (2001) suggested robust assurance processes must be introduced if trust in corporate sustainability reports is to be gained and sustained as Gray (2001) has identified a 'credibility gap' in sustainability reports.

2.8 Stakeholders in Sustainability Reporting Assurance

Despite the presence of professional guidelines to aid assurance procedures like the AA1000AS (2008), ISAE300 (2004); studies have shown that stakeholder involvement in undertaking assurance practices is still at a minimal level (Boele and Kemp, 2005; O' Dwyer and Owen, 2007; Jones and Solomon, 2010), even though the AA1000AS (2008) guideline was explicitly produced to serve the best interest of stakeholders (Adams and Evans, 2004; Adams et. al, 2004; Perego and Kolk, 2012). Evidence from a number of studies has shown that assurance engagements have involved external stakeholders in a variety of ways (O' Dwyer and Owen, 2005;

2007; O' Dwyer et. al, 2011; Manetti and Toccafondi, 2012; Edgley et. al, 2010).

The study by O' Dwyer and Owen (2005)²⁷ is one of the first few to examine the inclusion of stakeholders in sustainability reporting assurance. Findings indicate that 10% of assurance statements sample in the study interviewed external stakeholders. A succeeding study by the same authors in 2007 using an updated sample found that interview with stakeholders in assurance procedures have increased to 17% (O' Dwyer and Owen, 2007, p. 87). It is an increase but both studies branded the level of stakeholder inclusion in sustainability reporting assurance as 'minimal'. They came to the conclusion that stakeholder issues in assurance are 'not seriously addressed' despite the increased references by companies when compared to the previous – 2005 – study (O' Dwyer and Owen, 2007, p. 90).

A study by Edgley, Solomon and Jones (2010)²⁸ presented findings from UK assurance providers on stakeholder inclusion in assurance services. One of the interviewees stated that assurance 'is not just about numbers, it is about telling the world what the world wants to hear. You have to know what the stakeholders want to hear, they need to be involved' (p. 542). The study shows the increasing trend of stakeholder inclusion that more than two-thirds of the 20 assurance providers interviewed believed that stakeholders are now involved in assurance to some extent, where it was

²⁷ O' Dwyer and Owen (2005) assessed the extent to which assurance statements could deliver robust level of stakeholder accountability

²⁸ Edgley et. al. (2010) discussed the extent of stakeholder inclusivity in sustainability assurance processes

impossible for stakeholders to be involved in the past. The study also revealed the practice of direct (stakeholder interviews) and indirect (reading stakeholder feedback, internet searches, media, observing company-stakeholder meetings) mechanisms of stakeholder inclusivity as a way of improving assurance procedures, even though it is not generally practised (Edgley et. al, 2010). They generally concluded that assurance is still in its infancy and should be given time to develop before its full potential can be achieved.

Manetti and Toccafondi (2012) examined the extent to which stakeholders are consulted and involved by assurance providers in sustainability reporting assurance. Findings show that stakeholders were involved in 90% of the sample, most commonly through interviews and one to one. The most common group of stakeholders that were involved in the assurance procedures were employees with 71% and others with 8%, all the rest have below 3% with customers, local community, suppliers and lenders registering 0%. The inclusion of shareholders in assurance generated only 1% of the study's sample.

On the one hand, this represents an impressive improvement regarding stakeholder inclusion in assurance engagements compared to any other studies that have considered this aspect. On the other hand, it is clear that employees are the main stakeholders that were included and no classification was provided to differentiate average employees from managerial to executive employees. Other studies that considered inclusion of managerial employees and above ensured they were evaluated differently from average employees of companies. This could be

the possible reason for the surge in employee participation in assurance due to the combined participation of all forms of employees. Also, Manetti and Toccafondi (2012) outlined the limitation of the overwhelming participation of employee stakeholders in assurance engagements simply because they do not represent stakeholders in general. Furthermore, key stakeholder groups in society such as customers, local communities, lenders and suppliers, were apparently not involved in assurance, based on the findings.

The adoption of stakeholders in assurance services of sustainability reports generally appears to be slow but evidence shows that different forms of stakeholder dialogue with assurance providers are gradually improving (O' Dwyer et. al, 2011; O' Dwyer, 2011; Manetti and Toccafondi, 2012). The future of sustainability assurance lies with productive stakeholder engagement (Adams and Evans, 2004), but the mixed feelings about assuring sustainability reports from a managerial perspective remains (Jones and Solomon, 2010). Therefore, stakeholder involvement in assurance processes appears to be a suitable area for further research.

In summary, companies and assurance providers seem to be aware of the crucial role of stakeholders in producing complete, credible and reliable sustainability reports accompanied with assurance statements. Prior research by O' Dwyer et. al. (2005), Deegan et. al. (2006), O' Dwyer and Owen (2007), Ball et. al (2000), Perego (2009), Adams and Evans (2004), Manetti and Becatti (2009) and Simnett et. al. (2009) have critically examined the trend of assurance practices and identified significant variances in key aspects of assurance statements over the years. While

these variances cannot be easily attributed to a particular cause, it remains the responsibility of sustainability assurance advocates to continue to monitor the trend up to a time when these identifiable variances are adequately explained.

The contribution of researchers has resulted in a number of theories that appear to improve our understanding of sustainability reporting assurance. These theories still do not offer a complete explanation to all aspects of assurance services given its emerging and complex nature. But the theories have been successful in describing certain elements and more importantly have created room for arguments and debates through which assurance services might develop further. These theories are presented in the next section.

2.9 Theoretical Perspectives

There are a number of theories that have been applied to explain social and environmental reporting and assurance through the contribution of recognised researchers. Their efforts have been useful in predicting behaviours of relevant actors, thus offering more depth to the understanding of the underlying field. Given that the practice of 'assurance' otherwise called 'audit' is under investigation, a theory that discusses audit practice in general is considered as the main theoretical focus of this study. As such, an overview of the audit theory is presented first. Legitimacy theory, stakeholder theory and institutional theory are also discussed given their important contribution to the field of sustainability. All these theories were selected because they have, in one

way or the other, contributed to our knowledge of sustainability reporting assurance.

2.9.1 Audit Theory

The audit theory can be viewed as the foundation of assurance services of sustainability reports, from a theoretical perspective, basically due to the works of Michael Power (1991; 1994; 1996; 1997; 1999; 2000; 2003) who extensively argued about the concept of auditing, role of audits, importance of audits, concerns about auditing and the potential of audits to be practiced in areas other than conventional financial auditing.

In understanding audit, Power (1999) and Humphrey and Owen (2000) argued that one of the most important considerations of the idea of audit is the indeterminacy of audit function. The inability of actual and complete role of audit to be fully described remains a great strength and weakness of the practice. Strength in the sense that audit functions have the ability of being practiced across many subject areas (Power, 1997). Also, the obscurity of auditing has made it hard to disentangle failure of audits from regulatory failures. As a result, audits have been able to continue surviving even after corporate collapses that led to criticisms of audits and significantly called into question the very 'effectiveness of audits' (Humphrey and Owen, 2000).

The weakness of the audit function is concerned with the quality of the service (Power, 1999), where audit engagements are focused on examining the procedures of management control systems instead of the

effects of actions by organizations that appear to be at least equally or more important. This means that rather than securing the desired organizational change, the audit function maintains its distance from fundamental organizational activities. Humphrey and Owen (2000) refer to this as 'surface function with questionable ethical roots'.

In an attempt to provide a more in-depth understanding of the fundamentals of audit, Power (1999; 2000) made the classification of programmatic (normative) and technological (operational) levels of audit. The programmatic level deals with the benefits of provision of independent validation as well as dedication of control and efficiency. Issues in the programmatic level of audit are constructed through regulatory systems with the main aim of ensuring audit success (Humphrey and Owen, 2000). Most of the definitions of audit, especially those found in professional documents and many academic studies are developed through programmatic considerations. Thus, accompanied with ideals of good governance, accountability and quality of audit services (Power, 1997; 1999). The definitions of audits reflect the potentials of audit practice rather than its actual state of affairs; this is why Power (1997) argued that audit definitions are attempts of attaching values to the practice as an aspiration of what the practice could achieve. A definition of audit is difficult to provide, even though the idea of audit practice seems to be quite easy to understand (checking and giving accounts). This is as a result of numerous practices that were structured by different bodies of knowledge that all use the term 'auditing' (Power, 1994).

The technological or operational level considers that audit is a craft that depends on accomplishing a series of specialized practices (Power, 2003). There are four aspects that auditors should comply with and demonstrate in undertaking audits, they are – present a subject matter for audit; independence of the auditor; outline of procedures for obtaining and analysing audit evidence and the use of professional skill to draw opinion/conclusion (Power, 1999). Practices in technological level are guided by standards, require technical training and must follow quality assurance procedures. As a result, these practices are open to change due to economic, regulatory or political pressures (Power, 2003).

The practice of audit comprises of elements in both normative and technological levels. The normative aspects dictate what an audit should be and the general expectations of what should be done. The technological level requires auditors to use their individual skills obtained through technical training with consideration to standards and the nature of evidence acquired to make professional audit judgements that can be trusted by society (Power, 2003; 1999; Humphrey and Owen, 2000).

2.9.1.1 Role of Audit

Power (1996; 2000) argues that audit plays a crucial role in understanding and developing reporting systems and production of reports. The procedures carried out by auditors on risk assessments along with their knowledge on technologies of control and reporting processes enables them to offer valuable recommendations for improvements. Power (1996) also argues that auditing is a 'co-evolution' process between itself and the

company's control systems that assists in improving reporting procedures. Thus, audits possess the ability to assist in building a robust control system for companies; other attributes of audits include adjusting reporting systems, influencing organizational performance, securing organizational legitimacy, improving transparency and contributing to enhance accountability (Power, 2007; 2000; 1999; 1994).

The procedures auditors undertake influence the environments on which audits are being practised, as such, there is a need to facilitate an audit knowledge base (Power, 1996). Working environments should be open and able to accept new ideas as long as the concept has gone through the four stages of creating an audit knowledge base. Power (1996) demonstrated that an audit knowledge base should be composed of auditing rules, procedures and regulations; formal and informal education of auditors; practice that involves negotiations and judgement; and quality control of audit practices and procedures.

Audit serves the role of uncovering problems in companies' systems and providing proof to external parties. This role symbolizes the predominant function of audit as an instrument for delivering 'comfort in society' (Power, 1996). This comfort can be perceived as a system that contributes to securing legitimacy. Audit evaluation is a platform for which companies can emerge as safe, efficient and legitimate (Power, 1999). The outcome of an audit engagement, as reflected in the audit report, serves as an assurance to the information the audit procedure has been subjected to. Thus, the corresponding report will be viewed with increased confidence thereby improving legitimacy in systems of audit (Power, 2003). However,

Power (1999) raised a concern about the legitimacy of audits as companies can use them as an image management strategy especially when being viewed; as the audited is more important than the performance of the auditor and auditee as well as how the audit engagement was discharged. The existence of auditing concerns did not appear to significantly disrupt the growth of audit practices in its various forms.

The ability of the audit theory to provide qualities of transparency is one of its strongest features (Roberts, 2009; Power, 1994). The audit process enables internal procedures of corporations to be scrutinized and examined by external parties. Thus, companies' conducts become more 'visible' and transparent (Gray, 1992), which serves as a benefit to both companies and stakeholders. However, Power (1994) raised fundamental concerns about the extent and nature of audit transparency by highlighting the differences between audit processes and audit findings, where transparency in both aspects is required. The 'back' and 'front' stages (see Power, 1996) of auditing prevents effective transparency given that external parties (excluding the auditors) only have access to the front stage – the final audit report. Thus, the transparency of audit is an 'abstraction that merely conceals the real workings of institutions' (Robert, 2009). As Strathern (2000) argued, auditors hide many dimensions of audit 'output processes'. There is a considerable degree of uncertainty surrounding transparency associated with audit processes (Power, 2007; Strathern, 2004).

A crucial part of the audit theory that has attracted the attention of scholars around the globe for many years is the 'audit expectations gap' (Sikka et. al, 1998; Noghondari and Foong, 2013; Dixon et. al, 2006; Gold et. al, 2012; Barrett, 2010). The concept of the audit expectations gap suggests there is a difference between what the public expects from auditors and what auditors are actually achieving in audit engagements (Humphrey, 1997; Porter, 1993; Best et. al, 2001). There is a considerable degree of uncertainty regarding the expectation gap in audit as after years of research and practice, there is yet to be an adequate resolution on the expectations of users towards key audit practices. Users view audit procedures as a mechanism of detecting fraud, while management is responsible for fraud detection (Power, 1999). Also, the public assume it is the auditors' responsibility to expose critical activities of management behavior while auditors hold the view that their job is to form professional opinion (Power, 1994). As these misunderstandings have been ongoing, regulatory structures have so far proven ineffective in dealing with the audit expectations gap (Sikka et. al, 1998). The differences in the perception of how auditors see themselves and how the public sees them is a problem to the auditing profession that is used to question its value (Porter and Gowthorpe, 2004). However, this has not prevented the expansion of the audit knowledge base to other disciplines (Power, 1996).

2.9.1.2 The Growth of Audit

The explosion of audit was driven by a number of factors according to Power (2000). The first is the political demands by citizens, taxpayers and other relevant stakeholders in society for greater transparency and

accountability from companies (Power, 2000). These demands are not only limited to the public sector but private sector organizations are also under this type of pressure, particularly when it comes to the development of corporate governance structures (Power, 1997). The exploration of the idea of auditing into many fields offers new directions for private and public organizations in the name of accountability and assurance (Power, 2000).

Second, the introduction of a New Public Management system has promoted the need for financial and value for money auditing (Power, 2000). This was due to the financial constraint and commitment to financial and organizational reform in public sector institutions. The new public management system allows for organizations in the public sector to focus on their objectives while constantly being monitored. This is because inspection and auditing practices are highly valued as essential instruments of positive change. The result of adopting the new public management system enabled audit organizations like the National Audit Office to become prominent forces in government as observed by Power (1999; 2000).

The third reason for the growth of audit is as a result of the demand for more quality in assurance practices and related transformations in regulatory style (Power, 2000). Quality assurance practices achieve specific monitoring and reporting systems objectives, which are both important in verifications structure. The transformations in regulatory style attempts to regulate target companies indirectly by providing space in which regulatory compliance can be collectively negotiated and

constructed. The regulatory style encourages self-control arrangements to assist in evaluating risk management and relevant operating systems from within an organization (Power, 2000). The quality assurance and regulatory transformation models rely on both internal and external audit checking functions, this assists in identifying and treating performance issues faster.

In summary, the audit theory emphasises checking and giving of accounts to enhance the credibility of audited information (Power, 1994; 1999), while the concept has its drawbacks (Power, 1994; 1996; 1997; 1999), the importance of monitoring mechanisms of corporate activities and disclosures is needed in a well-functioning society (Owen and Humphrey, 2000; Sikka et. al, 1998). As a result, audit has expanded into a number of fields including sustainability reporting, commonly known as sustainability reporting assurance. Elements of the audit theory as presented by Power appear to be considered and used in the evaluation of sustainability reporting assurance by prominent researchers (Ball et. al, 2000; O' Dwyer and Owen, 2005; 2007; O' Dwyer et. al, 2011; O' Dwyer, 2011; Jones and Solomon 2010). Key issues in the audit theory like the opinion of a professional third party (Power, 1994), expectations gap (Adams and Evans), promoting transparency and accountability (Power, 1994), independence in audit procedures and concerns about managerial capture (Ball et. al, 2000; Smith et. al, 2011) seem to be applicable in sustainability reporting assurance. As a result, various notions within the audit theory appear to be useful in investigating key issues around assurance of sustainability reports, thus the audit theory is considered as the primary theoretical perspective in this study.

2.9.2 Legitimacy Theory

The legitimacy theory is one of the most commonly used theories in analyzing corporate social responsibility and disclosure, the concept of legitimacy circles around being a legitimate organisation in society. A legitimate organization is one that constantly ensures its 'value system is congruent with the value system of wider society' (Lindblom, 1993). The emphasis on being a legitimate organization is complying with the agreed upon norms and values of society, therefore, it is what society know and perceive about organizations' conduct that is used to shape the legitimate status of every organization (Suchman, 1995). As a result, organizations must adopt strategies to enable relevant individuals and groups in society to make assessments of their conducts. These relevant individuals and groups, who are both internal and external to organizations, are referred to as 'relevant publics' (Lindblom, 1993). The assessment of legitimacy by these 'relevant publics' is quite complex but can prove to be vital for the survival of organizations (Patten, 1992). Therefore, companies must understand and respect the ethos, norms and values of society, to be considered as legitimate (Deegan, 2009).

The notion of social contract is an important aspect of legitimacy theory (Gray et. al, 1996; Deegan and Unerman, 2011), which asserts that there are expectations society has on companies. These expectations are the explicit and implicit terms in the social contract and are also used to access legitimacy of a company in society. The terms of the social contract are quite difficult to define and are not exactly visible but have gained importance over the years as society no longer views profit maximization

as the sole indicator of corporate performance (Deegan, 2009). Social issues like health and safety of employees, neighbours and consumers as well as environmental issues like management of wastes and emissions among others are forms of societal expectations that make up contemporary terms of the social contract, particularly in leading economies. Thus, companies must meet or at least show they intend to meet society's expectations in the social contract to be considered as legitimate. The expectations of society are mainly to ensure companies' operations are not harmful to any group in society. Hence, organizations should pay attention to the rights of society at large, rather than narrowly those of investors and financial providers (Deegan and Unerman, 2011).

It has been argued by philosophers that all institutions including businesses operate under a social contract where their growth and survival are based on the delivery of some socially desirable ends to society in general and distribution of political, social and economical benefits to individuals and groups from which it derives power (Deegan, 2009; Shocker and Sethi, 1974). They went on to suggest that in a dynamic society, sources of organizational power and needs for its services are temporary, therefore, organizations must constantly try to show they are not only legitimate, but are also constantly relevant in society. This is achieved when society shows they require the services and products an organization is offering along with an approval from groups in society that are benefiting from the products and services (Deegan and Unerman, 2011). A common product of societal approval of a company's activities is granting license to operate.

The notion of license to operate asserts that a company has been endorsed by the society to carry out its activities. The license to operate gives companies the opportunity to build their reputation in society by demonstrating that their actions are not socially and environmentally irresponsible. More importantly, companies do not originally own all the resources they use in achieving their objectives, these resources are fundamentally owned by society in general (Gray et. al, 1996). License to operate allows companies to have access to key resources like land and employees for their operations. Consistent with legitimacy theory, legitimacy by itself is viewed as a valuable resource (O'Donovan, 2002), one that plays a significant role in determining whether society should grant a company license to operate (Deegan and Blomquist, 2006). It can be argued that companies who are considered as legitimate will have easier access to resources, where societal expectations must constantly be met for continued license to operate and maintaining good legitimate status.

Societal expectations are values and practices the society requires for companies to respect and uphold. Consistent with legitimacy theory, societal expectations, complex as these expectations on companies, are constantly subject to change. Furthermore, societal expectations are distinct from legal requirements that companies can make reference to, where Lindblom (1993) argued that societal expectations, to an extent, can be contradictory to legal requirements. Therefore, companies seeking legitimacy must not solely focus on legal requirements when adapting to societal expectations (Deegan and Unerman, 2011). In the process of meeting societal expectations, companies must also be proactive as

Suchman (1995) argues that requirements of a social system are time and place specific, where Deegan and Unerman (2011) suggested that societal expectations have the ability to influence the performance of companies. This is why companies must correctly anticipate and address changing societal expectations to avoid the risk of threatening their licence to operate.

Companies operating under excessive risks and threats indicate that the terms in the social contract are not properly followed, which threatens their licence to operate. Also, the societal expectations on the company will be high to the extent of attracting substantial negative consequences. These risks could be in the form of social - where activists/media campaign against an organization's conduct or people not wanting to work for the organization, legal - where a company faces lawsuits, or economic- where a company find it difficult to access crucial resources or face product or service boycott. As a result of these potential legitimating threats, it is argued that companies should adopt strategies to repair, gain, promote and maintain their legitimacy through regular communication (Sethi, 1977; Dowling and Pfeffer, 1975; Suchman, 1995; Patten, 1991; O'Donovan, 2002; Deegan and Unerman, 2011).

Providing information about a company's social and environmental performance directed at external parties is the most common approach used by companies to inform the public about its operations (Neu et. al, 1998). This public disclosure is an approach that is adopted by many companies to demonstrate legitimacy to their respective societies (Lindblom, 1993; Deegan, 2009). Studies by Deegan et. al. (2002), Patten

(1992), Campbell (2000), Islam and Deegan (2008) all presented evidence consistent with legitimacy theory from reporting companies. Meanwhile, other studies by O' Dwyer (2002), Wilmshurst and Frost (2000) provided little support for the presence of legitimacy from relevant companies disclosures. Also, Gray and Bebbington (2000); Dillard et. al. (2004) argued that corporate disclosures are used as a legitimation tool rather than a mechanism for achieving accountability, but managers perceive threats from the relevant publics if they are not discharging accountability (O' Dwyer, 2002).

There exist various strategies for public disclosure as an attempt to achieve legitimacy. Suchman (1995) argued that different legitimation strategies are to be adopted for companies willing to gain, maintain and/or repair their legitimacy status. Gaining legitimacy strategies are utilised when a company is new in an area of operation, therefore, has no past reputation in that area. In order to swiftly gain legitimacy and also assist in responding to the liability of newness, this particular company needs to engage proactively and report on relevant activities to win acceptance (Deegan and Unerman, 2011). Companies maintaining legitimacy needs to anticipate changing societal expectations and perceptions in order to forecast future changes, they should also make an effort to preserve and protect their past accomplishments (Suchman, 1995). Strategies for repairing legitimacy are quite similar with maintaining legitimacy; the difference is that companies approach strategies proactively (not associated with any particular crisis) when maintaining legitimacy while strategies are approached more reactively (aimed at finding solution to an immediate crisis) when repairing

legitimacy (O'Donovan, 2002). However, companies will have to take actions of maintaining their legitimacy after repairing legitimacy.

A number of scholars like Lindblom (1993); Suchman (1995) introduced different ways of classifying and exploring legitimation strategies. While both approaches appear to be crucial in examining legitimacy theory, Suchman's (1995) classification appears to be more popular in institutional analysis (Deephouse and Suchman, 2008; Scott, 1995; Greenwood et. al, 2002; Archibald, 2004) whereas Lindblom's (1993) is considered more in studies relating to CSR/sustainability (Deegan, 2002; Patten, 1991; 2002; O' Donovan, 2002; Neu et. al, 1998). However, a recent study that investigated assurance services of a particular institution by O' Dwyer, Unerman and Owen (2011) utilised the Suchman (2005) strategy of legitimation. As this study is more related to CSR and sustainability, Lindblom's (1993) classification is presented. Lindblom (1993) identified four approaches companies can adopt to gain, maintain and repair their legitimacy. Companies can seek to:

- Inform and educate the society about actual changes in activities and performance which are more in line with the society's values and expectations
- Change the perceptions that society have over them but not change actual behaviour
- Manipulate perception of society by deflecting their attention from issues of real concern to others that are trivial but presented in an appealing way

- Change external expectations of its activities and performance by showing particular societal expectations are unreasonable or unnecessary

All the four approaches can be achieved through communication in an attempt to achieve organizational legitimacy, where organizational legitimacy can often be created and maintained with the use of symbols and symbolic actions that constitute the company's public image (Dowling and Pfeffer, 1975; Neu et. al. 1998; Deegan and Blomquist, 2006).

In summary, legitimacy theory provides various channels for companies to conduct themselves as legitimate organs of society. Companies are in a position to maintain their legitimacy once societal norms and values are addressed. However, legitimacy theory focuses extensively on society as a whole, thereby ignoring the various independent elements that make up the society. These independent elements might not share the same values and norms; therefore conducts aimed at securing legitimacy are unlikely to attract universal acclaim. There exist other approaches for achieving organizational legitimacy, one which encourages companies to adopt a narrower system by considering and paying attention to particular groups (who affect and are affected by companies' activities) that make up the society rather than the society at large.

2.9.3 Stakeholder Theory

The stakeholder theory emphasizes that companies should acknowledge, respect and conform to the requirements of its various groups of stakeholders (Freeman, 1984). Understanding the norms and values of

stakeholders, including constantly meeting their expectations is not an easy endeavour, but appears to be a more refined approach than managing the expectations of society at large as suggested in legitimacy theory (Deegan and Unerman, 2011). With the difference in focus between legitimacy theory and stakeholder theory, there exist similarities between the two theories. This can be observed in the fundamental concept of the theories that all companies are part of a broader social system and that all companies impact upon and are impacted by others within every society (Deegan, 2009). Hence, both theories are capable of providing explanation to corporate activities from different focus points. This is why Gray et. al. (1995) argued that legitimacy theory and stakeholder theory enrich rather than compete for understanding of corporate disclosure practices. While Deegan and Unerman (2011) further argued that treating the stakeholder theory and legitimacy theory as distinct and competing theories would be wrong, they rather suggested that the theories should be viewed as offering complimentary and overlapping perspectives.

Stakeholder theory argues about the importance of individual groups in society and the valuable role they play in the existence and success of corporations and their activities (Roberts, 1992; Mitchell et. al, 1997). As organizations and individual groups affect each other, O' Dwyer (2005) argued that there must be information flows between the two parties for a successful relationship. This is apparent, as stakeholders originally own the resources needed by companies for their operations; therefore, these stakeholders are automatically important to particular companies. Today's business environment requires companies to maintain a good relationship

with numerous stakeholders, keeping in mind that the impact of corporate activities on each stakeholder group is different (Chen and Roberts, 2010).

The stakeholder theory requires companies to consider various groups in the society. This means a company will have to meet the expectations of these different groups, where it is likely that these expectations are contradictory. This leaves companies in an uneasy situation especially when trying to meet stakeholders' conflicting interests (Deegan and Unerman, 2011). It remains the responsibility of corporations to effectively manage their stakeholders towards gaining their trust and support, where the extent of approval and support a company can get from its respective key stakeholders highly depends on the company's ability to categorise and balance conflicting stakeholders expectations (Chen and Roberts, 2010).

Scholars have significantly assisted in the development of stakeholder theory and stakeholder issues for decades resulting in a great deal of academic literature across many recognised fields. However, the stakeholder theory is used in research studies without offering enough aims and assumptions of the concept (Deegan and Unerman, 2011). This is why Hasnas (1998) argued that the stakeholder theory is a troublesome label because it is used in research studies as 'an empirical theory of management and a normative theory of business ethics without attempting to distinguish between the two'. Contributions of scholars have made the categorisation of stakeholders into various groups and features possible. In the stakeholder theory literature, the most common

classification of stakeholders is the primary or secondary groups (Bakker and Hond, 2008; Clarkson, 1995), the ethical (normative) or managerial perspectives (Deegan and Unerman, 2011; Roberts, 1992) and the power, legitimacy and urgency features (Paloviita and Luoma-aho, 2010; Mitchell et. al, 1997).

Primary stakeholders according to Clarkson (1995) are those whose direct participation is needed for a company to survive as a going concern, while secondary stakeholders are those who are influenced and affected by a company's operations but are not in direct contact with the company and are not necessarily needed for the company to survive. In a study by Hart and Sharma (2004), they presented a model of stakeholder analysis for the generation of imaginative new business ideas and classified stakeholders as core and fringe. From their definition and groupings of core and fringe stakeholders, it was observed that core stakeholders are similar with primary stakeholders while fringe stakeholders are identical with secondary stakeholders.

Clarkson (1995) argued that primary stakeholders are the ones that companies must monitor closely and attend to their concerns. Management usually considers primary stakeholders first in any decision they make, as the success of all companies depends on the interest of its primary stakeholders (Deegan, 2009). Concerns of secondary stakeholders are given less attention by management, but Gray et. al. (1996) argued that all stakeholders have rights to information about corporate actions that affect them - directly or indirectly. These rights must be respected

even if the stakeholders choose not to use the information or do not have the ability to affect the survival of the company (O' Dwyer, 2005).

The ethical and managerial perspectives of stakeholder theory were outlined by Deegan and Unerman (2011) as companies can consider stakeholder groups based on their underlying corporate perspectives. The ethical perspective (otherwise known as moral or normative) argues that stakeholder power is not directly relevant; therefore, companies should treat all stakeholders fairly. The position of the ethical perspective is that stakeholders have rights that should not be violated as a result of companies' strategic economic objectives and that companies as part of a social system have a responsibility of being accountable to other organs of the same social system (O' Dwyer, 2005). The accountability model was used by Gray et. al. (1996) to demonstrate that companies should not only consider stakeholders in their actions, but should also provide an account of their actions to all these stakeholders. The practice of giving account to all stakeholders' is not assumed to be demand driven but rather responsibility driven (Deegan and Unerman, 2011). The studies by Patten (1992); Deegan and Rankin (1996); Deegan et. al. (2002) are examples that responsibility driven disclosures have influential elements that are worthy of corporate attention.

The managerial perspective argues that companies should only focus on the needs and expectations of particular stakeholders, those stakeholders that possess the ability to affect the survival of the company. With the different types of stakeholders in society and different ways in which company activities affect various stakeholders, the managerial perspective

is only concerned with stakeholders that are resource owners. Thus, Ullman (1985) stated that the more crucial a company needs a particular stakeholder resource for its continued success and survival, the more that company will continue to address the expectations of that stakeholder. In other words, companies will not attempt to meet the expectations of stakeholders that do not have the resources they require for their operations, this is why Gray et. al. (1996) argued that the managerial perspective of stakeholder theory is 'organization-centred'. According to Donaldson and Preston (1995) Freeman (1984), companies cannot practically attend to the needs of all their stakeholders; as a result, companies focus on a section of their stakeholders.

Another approach of the stakeholder theory is in the model developed by Mitchell et. al. (1997) who viewed categories of stakeholders based on the qualities they possess and how these qualities can affect the continued operations of companies'. The qualities are used to identify stakeholders and their corresponding importance on companies so that they can concentrate on meeting their needs first. The stakeholder qualities are power, legitimacy and urgency (Mitchell et. al, 1997). Stakeholder power is the ability to exert influence towards achieving desired outcomes by coercing others to behave as they wish. Legitimacy is the degree to which companies' activities are generally viewed and perceived as appropriate, desirable and acceptable. Urgency is the extent to which stakeholder expectations require immediate action from a company (Paloviita and Luoma-aho, 2010; Deegan and Unerman, 2011).

The level of attention companies' give stakeholders is determined by the qualities the stakeholders possess. Thus, Paloviita and Luoma-aho (2010) argue that stakeholders with power, legitimacy and urgency are classified as definitive stakeholders; therefore, companies must first of all attend to their needs. Meanwhile, companies that possess two of the qualities will attract less attention, while those with only one quality will be least in companies' plans. However, literature indicates that these stakeholder qualities are capable of changing over time (Unerman and Bennett, 2004), therefore, companies must be cautiously aware and attentive in the way they prioritise and address the demands of not only their current important stakeholders, but also the less important ones. This could perhaps be supported by the position of Deegan and Unerman (2011) who suggested that companies must find ways to balance the expectations of all their stakeholders.

The various perspectives of stakeholder theory are a reasonable platform for companies to commence stakeholder identification and analysis for the progress of their businesses. The stakeholder perspective can be viewed as a foundation for stakeholder engagement, which is currently a notion that has significantly developed in practice as well as in research over recent decades (Jones and Iwasaki, 2011; Sloan, 2009). Social and environmental disclosure is viewed as a mechanism for engagement between companies and stakeholders (Deegan and Blomquist, 2006; Neu et. al, 1998; Islam and Deegan, 2008). Where Roberts (1992) and Friedman and Miles (2002) observed that social and environmental disclosure is a successful approach for promoting organizational-society relationships. However, disclosure cannot be viewed as the most effective

means of engagement and dialogue simply because it is a one-way method of communication and only one party produces the report (Thompson and Bebbington, 2005). Therefore, a practice under the auspice of accounting that requires the views of more than one party can perhaps be used to promote stakeholder accountability.

In summary, the stakeholder theory encourages the consideration and participation of stakeholders in companies' activities. Assurance of social and environmental reporting is a practice that shares certain important attributes with the stakeholder theory. Assurance is fundamentally based on the perspective of stakeholders by examining the social and environmental disclosures of companies. Developments in assurance services have led to calls for more stakeholders to be considered in the practice (O' Dwyer 2011; Edgley et. al, 2010; O' Dwyer and Owen, 2005; 2007; Adams and Evans, 2004). Hence, the stakeholder theory will assist in providing explanation to findings regarding stakeholders in sustainability assurance.

2.9.4 Institutional Theory

The neo-institutional theory is commonly referred to as institutional theory in social and environmental literature (Smith et. al, 2011; Hoffman, 1999; Christmann, 2004; Scott, 1995) and is the aspect of institutional theory to be discussed in this section. Institutional theory in general deals with analysis that explores organizational behaviour and can be classified into three types. The other aspects of institutional theory that appear in literature are the Old Institutional Economics (OIE), which deals with

shaping thoughts and actions of individual human agents in an organization (Scapens, 2006). The New Institutional Economics (NIE) that focuses on adopted structures by organizations to govern economic transactions. Finally, the New Institutional Sociology (NIS) or neo-institutional theory is concerned with social and cultural factors that shape institutional practices and behaviours (Scapens, 2006).

The neo-institutional theory considers how social choices are shaped, mediated and channeled by institutional environments (Hoffman, 1999). The institutional environment is understood to be composed of organizations and organizational fields (Larringa-Gonzales, 2007). The organizational fields comprise members that dictate and comply with social and cultural norms of society, which form a recognised and accepted area of institutional life (DiMaggio and Powell, 1983). Organizational fields give common meaning to systems and encourage participants to interact freely, fatefully and frequently with one another (Larringa-Gonzales, 2007). Organizational fields remain a valuable part of organizational practices and behaviours, especially when analysing elements of the neo-institutional theory. Larringa-Gonzales (2007) argued that there is growing interaction between organizations and organizational fields in sustainability related issues. The rest of this study will concentrate on neo-institutional theory and simply refer to it as institutional theory.

Institutional theory considers the norms and values of society and explains why companies adopt similar practices while operating (Deegan, 2009). The theory argues that companies respond to pressures from their

respective organizational fields and adopt structures that are socially accepted and considered as legitimate (Carpenter and Feroz, 2001), therefore the institutional theory is enshrined with the concept of legitimacy (Larringa-Gonzales, 2007; DiMaggio and Powell, 1991; Scott, 1995; Meyer and Rowan, 1977). The proposition of the institutional theory is the standardisation and harmonisation of predominant societal norms (Tagesson, 2007). This theory argues that they are forces within the society that influence companies to act in a similar manner (DiMaggio and Powell, 1983).

Since organizations exist in an institutional environment, which constitutes established structures and standards that are beyond the control of individual organizations (Meyer and Rowan, 1977), classifications exist in literature to assist in understanding the classes of organizational behaviour within its organizational field. At every given time, it is expected that there could be a number of differing institutional influences that can potentially have an effect on organizational practices. These influences exert different types of pressures, which means companies must respond to their different pressures in different ways, however, companies with similar sets of pressures can act in an identical manner towards responding to pressures. As such, the institutional theory is comprised of two main aspects - isomorphism and decoupling (Deegan and Unerman, 2009). Isomorphism is the commonly used term in institutional theory and it deals with the adoption of processes or policies by companies facing identical environmental conditions (DiMaggio and Powell, 1983), which is described by Carpenter and Feroz (2001) as homogenisation of organizations. Isomorphic processes force adapting to

institutional practices, where one unit in a given population resemble other units in the population (Deegan and Unerman, 2011).

There are three different isomorphic processes, namely – coercive isomorphism, mimetic isomorphism and normative isomorphism (DiMaggio and Powell, 1983). Coercive isomorphism relates to the change of a company's processes as a result of pressures from stakeholders whom the company relies on for survival (Deegan, 2009). The pressures emanating from these stakeholders leaves companies with no option but to adopt practices that will satisfy the expectations of these usually powerful stakeholders or put their (companies) survival at risk. Stakeholders with such influence own and control resources needed by companies, without these resources, companies will struggle to operate.

Coercive isomorphism pressurises companies to comply with the status quo since it is assumed that all or most existing companies with similar attributes are already meeting the requirements of these powerful stakeholders. Coercive isomorphism can be imposed in the form of rules and regulations mechanisms, where relevant companies will face punishment for going against the generally accepted rules and regulations (North, 1990). Pressures in coercive isomorphism are placed upon dependent organizations by other organizations and by cultural expectations of the society, for which the organizations are a part (Deegan and Unerman, 2011).

The idea supporting coercive isomorphism is similar to the managerial branch of stakeholder theory, where a company can decide to engage in

certain actions, for instance, disclosure of social and environmental information or assuring their social and environmental reports, with the primary intention of meeting the expectation needs of their most valuable stakeholders. In isomorphic terms, companies coerced to report on their social and environmental performance or assure their social and environmental reports by powerful stakeholders.

Mimetic isomorphism occurs where a company emulates the processes of other companies in order to achieve certain objectives. Companies seeking to improve their operations by emulating actions of other similar but successful companies usually adopt this isomorphic process (Unerman and Bennett, 2004). The pressures companies face that drives them to consider mimetic isomorphism is the fear of uncertainty (DiMaggio and Powell, 1983). This encourages companies to adopt practices that other companies have successfully implemented to minimise the possibility of the uncertainty they will face when introducing a new practice or process. Companies faced with uncertainty can choose to imitate the actions of successful counterparts (DiMaggio and Powell, 1983), where mimetic isomorphism is viewed by Palmer et. al. (1993) as a reliable response for companies struggling with uncertainty. Mimetic isomorphism can also be adopted when companies realise that their competitors are getting way ahead of them, in this case, imitation of processes and policies for competitive reasons is viewed as a valid approach (Deegan and Unerman, 2011). Mimetic isomorphism can also be used as a legitimacy tool, where companies can emulate the actions of other companies to demonstrate they are legitimate organs of society (DiMaggio and Powell, 1983).

Normative isomorphism relates to pressures from various norms and values for a company to adopt certain practices. These norms arise from professionalisation of a certain field that manifest into pressures for institutions to adopt processes as a cognitive base of occupational autonomy (DiMaggio and Powell, 1983). Pressures of normative isomorphism emerge through various facets including formal education, trade associations, professional media and other professional and knowledgeable networks. This is why Scott (2001) argues that normative isomorphism introduces a perspective that reflects what is preferred and how things should be done in a social system.

Normative isomorphic pressures were observed in a study by Palmer et. al. (1993) who evaluated the background of a number of chief executive officers (CEO's) and highlighted the adoption pattern of a particular managerial approach known as Multi-divisional Form (MDF) against a specific set of CEO's. MDF is a concept specifically taught as part of conventional wisdom in elite business schools that the CEO's appeared to have previously attended. The identical management behaviours of these similarly trained CEO's resulted in institutional processes similarity within their organizational fields. The presence of normative isomorphism enabled Deegan and Unerman (2011) to argue that developed workplace conditions and corporate culture could stimulate normative isomorphic pressures by generating collective managerial views to favor certain types of actions, like accepted reporting practices. Managers working in groups can develop the tendency to unanimously accept social and environmental disclosure practices for instance, to avoid having part of the group that are out of line.

The coercive, mimetic and normative isomorphic pressures are the most common in exploring elements of the institutional theory across recognised fields. However, the different isomorphic pressures should be viewed with care because they do not exist in total isolation from one another. The Unerman and Bennett (2004) study used the ideal speech situation and a theoretical model to investigate a consensus set of social, environmental, economic and ethical responsibilities to be addressed by organizations. They argued that even though companies strive to implement stakeholder dialogue mechanisms as their competitors have done effectively (mimetic isomorphism), it would have been unlikely for the companies to do so without pressures from economically powerful stakeholders (coercive isomorphism). This shows that isomorphic pressures can enable one another, where Carpenter and Feroz (2001) argued that two or more isomorphic pressures could operate simultaneously making it hard for one to identify the influential institutional pressure in a given situation.

The second aspect of the institutional theory is relatively less popular than isomorphism, known as decoupling. This occurs when a company adopts certain institutional practices but at the same time these practices are not intrinsically part of the company's main operations, thus, can be decoupled from actual practices of the company (DiMaggio and Powell, 1983). This happens when managers feel the need to be associated with certain institutional practices, even if the practices are not what they appear to be (Unerman and Deegan, 2009). There are similarities between decoupling and legitimacy theory, where companies undertake certain

actions like social and environmental disclosures or assurance primarily to construct a company's image that is probably very different from the actual practices of the company (Dillard et. al, 2004).

In summary, the institutional theory appears to offer explanations to various institutional activities. Literature contains direct reference to the institutional theory when discussing social and environmental practices of corporations (Chen and Roberts, 2010; Deegan and Unerman, 2011; Unerman et. al, 2007; Dillard et. al, 2004; Unerman and Bennett, 2004). Assurance of sustainability reports is a corporate practice and an aspect of corporate responsibility; therefore, the institutional theory could perhaps be useful in providing insights into aspects of the practice.

2.9.5 Reconciling Theoretical Perspectives

The consideration of four theoretical perspectives serves the purpose of providing rich explanations to the findings of this study. The sustainability assurance literature already contains arguments that have been drawn from various elements within the four theories (albeit not always explicitly stated). Ball, Owen and Gray (2000) and O' Dwyer and Owen (2005) evaluated sustainability assurance practices through the audit theoretical perspective by Power (1991; 1994; 1997). O'Dwyer, Owen and Unerman (2011) used legitimacy theory to investigate how assurance providers secure legitimacy of sustainability assurance. Studies that considered stakeholder inclusivity and accountability within sustainability assurance (Edgley et. al, 2010; Adams and Evans, 2004; O' Dwyer and Owen, 2007; Manetti and Toccafondi, 2012) utilised perspectives that are consistent

with the stakeholder theory. The argument by Smith et. al. (2011) on the 'standardisation' of sustainability assurance was based on the institutional theory.

The practice of assurance is the result of continuous dynamic and contested social interactions (Smith et. al, 2011). Therefore, theories used to investigate the practice should be able to accommodate aspects of social context. All the four theories (audit, legitimacy, institutional and stakeholder) discussed above possess capabilities that facilitate social interactive processes. Even though all the theories pursue credibility of corporate activities, only the audit theory is directly related to a specific practice that represents companies' efforts in enhancing the quality of disclosed information. As such, the audit theory is the central theoretical perspective in this study. The audit theory is likely to provide the most profound insights in this study due to the important role it has played in establishing and promoting different forms of audit practices in societies.

The emergence of sustainability reporting assurance as a practice has significantly utilised key principles within the audit literature (Humphrey, 2008; Power, 1999; 1996; 1991). Discussions around sustainability assurance seem unlikely to ignore all attributes of the audit theory, as already proven in scholarly studies. The main advantage of the audit theory in this study is that part of its principles includes core notions of all the other three theories.

The audit literature considers auditing of published information as a legitimate conduct (see Humphrey and Owen, 2000; Power, 1996) that

brings justified comfort by complying with the 'norms and values of western market economies' (Curtis and Turley, 2007, p. 441). This perspective is consistent with the basic conception of the legitimacy theory (see O' Donovan, 2002; Deegan, 2014). The audit theory also recommends stakeholder views to be heard in audit processes for accountability to be achieved (Cotton et. al, 2000; Power, 1994; Evans, 1997). This position supports the principal ideology behind the stakeholder theory (see Freeman, 1984; Deegan and Unerman, 2011). The audit literature argues the importance of consistency and efficiency in auditing which assists in reproducing an audit knowledge base system that sustains the institutional role of audits (Power, 1999; 1996). As such, values within the institutional theory that deal with apparent similarities and differences of recognised institutional activities (sustainability assurance) appear to be relevant.

The approach and level of analysis for all the theories are not exactly the same, but their contribution in explaining actions of organizations as well as the relationship between organizations and society remain valuable (Chen and Roberts, 2010). The characteristics, as shown in Table 2.2, highlights the assumptions that should be considered alongside respective theories.

Table 2.2 Summary of theories

| | Audit theory | Legitimacy theory | Institutional theory | Stakeholder theory |
|------------------------|---|--|---|---------------------------------|
| Purpose | Enhance credibility of reported information | Adherence with societal norms and values | Adhere to wider institutionalization requirements | Meeting demands of stakeholders |
| Interaction pattern | Audit providers | Society members | Actors in institutional environment | Stakeholders |
| Scope of theory | Auditing related issues | Broadly defined | | |
| Process of application | Following auditing procedures | Initiate legitimating strategies | Adopt accepted practices within institutional environment | Satisfy stakeholder demands |

For the purpose of this study, all four theories appear to be capable of contributing to the dynamics of sustainability reporting assurance from various perspectives. The different theoretical perspectives will assist in exploring aspects of assurance from different angles (Guba and Lincoln, 1989) in order to enrich our understanding of the concept (Manetti and Tocaffondi, 2012; Jones and Solomon, 2010). According to Deegan (2014), the systems oriented theories (legitimacy, stakeholder and institutional theories) complement and do not compete for the explanation of issues.

2.10 Gaps in Literature

This study addresses a number of gaps in the literature by providing an in-depth investigation into various aspects of sustainability reporting assurance. The research is divided into three parts, namely: assurance statements, assurance providers and stakeholders.

2.10.1 Assurance Statements

Research on sustainability reporting assurance has been growing over recent years with the majority of these studies investigating the practice mainly through publicly disclosed assurance statements (Manetti and Toccafondi, 2012; Perego and Kolk, 2012; Kolk, 2010; Perego, 2009; Deegan et. al, 2006; Manetti and Becatti, 2009; O' Dwyer and Owen, 2005; 2007; Simnett et. al, 2009). All these studies on assurance utilised what Owen et. al. (2009) referred to as a 'desk based' approach, which mainly deals with the examination of publicly disclosed secondary data. Table 2.3 below is a summary of the prominent desk based studies on sustainability reporting assurance.

Table 2.3 Sustainability assurance desk base studies

| Authors | Sample source | Years covered | Sample size ^a |
|-------------------------------|--|---------------|--------------------------|
| Manetti and Toccafondi (2012) | GRI database | 2009 | 161 |
| Perego and Kolk (2012) | Top 250 of Fortune Global 500 | 1999-2008 | 180 |
| Perego (2009) | ACCA Sustainability Reporting Awards | 2005 | 69 |
| Manetti and Becatti (2009) | GRI database | 2007 | 34 |
| Simnett et. al. (2009) | Corporate Register ^b | 2002-2004 | 672 |
| O' Dwyer and Owen (2007) | ACCA UK and European Sustainability Reporting Awards | 2003 | 29 |
| O' Dwyer and Owen (2005) | ACCA UK and European Sustainability Reporting Awards | 2002 | 41 |
| Deegan et. al. (2006) | CPA Australia database | 2003 | 100 |

^a - Assurance statements

^b - Supplemented by GRI database and Dow Jones Sustainability Index

The contribution of these studies has highlighted various interesting elements within contents of assurance statements, using different samples as shown in Table 2.3. However, there are insights that could be gained further given that there is an absence of a universally agreed upon structure on how assurance statements should be presented.

Considering the above-mentioned scholarly studies (such as Deegan et. al, 2006; Adams and Evans, 2004; Manetti and Toccafondi, 2012; O' Dwyer and Owen, 2007; Ball et. al, 2000; Simnett et. al, 2009), this study will contribute to literature by presenting an updated and expanded

assessment of recent trends in assurance statements of sustainability reports, solely based on UK evidence. The audit theory will be used to assist in identifying the important contents of assurance statements that promotes the comfort and credibility associated with the practice. Contents of assurance statements that appear to be a norm across the sample will be considered as valuable, which might be used to promote legitimacy (legitimacy theory) of the practice. Consistency of assurance statement contents in terms of similarity and differences is considered in accordance with the institutional theory. The extent of stakeholder consideration and inclusion in assurance processes is observed based on the stakeholder theory. This approach will be adopted in an attempt to further understand the existing features of assurance amongst other observable elements. As such the first research question for this study is:

RQ1: What is the nature of sustainability reporting assurance in the UK?

2.10.2 Assurance Providers

An important aspect of this study is to understand the role of assurance providers in sustainability reporting assurance, particularly in relation to apparent variances in the assurance statements. As assurance providers form an instrumental part of assurance statements (Adams and Evans, 2004; O' Dwyer et. al, 2011; Ball et. al, 2000; Deegan et. al, 2006), they are in a good position to offer a relevant and professional contribution to building an in-depth understanding of issues about assurance engagements. The approach applied in this study is in response to the critique by various authors (Adams and Larrinaga-Gonzalez, 2007; Parker

2005; Bebbington et. al, 2007; Cooper, 2005; Adams, 2002; and Larrinaga-Gonzalez and Bebbington, 2001) that a crucial weakness of sustainability accounting research is the 'lack of engagement' with key participants. Direct perspectives of relevant actors in assurance engagements is crucial to its development as suggested in studies by Manetti and Toccafondi (2012), Edgley et. al. (2010), O' Dwyer et. al. (2011), Jones and Solomon (2010). This exciting approach with the potential of gaining valuable insights into the study of sustainability reporting assurance has been recently utilised. However, extant literature indicates that only a small number of studies at the moment, such as Edgley, Jones and Atkins (2015); O' Dwyer (2011); O' Dwyer, Owen and Unerman (2011) and Edgley, Jones and Solomon (2010) have utilised this approach.

O' Dwyer, Owen and Unerman (2011) examined the assurance processes of a large professional service firm, thought to be the worldwide leader in sustainability assurance. O' Dwyer (2011) investigated efforts by assurance providers towards rendering sustainability reporting auditable. This was achieved by understanding how two of the leading assurance providers constructed, integrated and promoted sustainability reporting assurance practices within their organizations. Edgley, Jones and Solomon (2010) studied the perspectives of assurance providers to gain an in-depth understanding of the processes and benefits of social and environmental reporting assurance.

The studies outlined above highlight the position that direct contact with assurance providers presents the potential of obtaining valuable data about sustainability reporting assurance. With the number of studies that

have adopted the approach in addition to the complex nature of the practice, it seems relevant to consider the perspectives of assurance providers towards building a more coherent understanding of sustainability reporting assurance. All the studies encouraged researchers in the field of sustainability reporting assurance to go beyond the examination of statements.

While some prior studies have obtained the views of assurance providers, none have considered discussing the apparent variances in assurance statements. A key area that assurance providers can assist in offering their professional opinion is why assurance statements are accompanied with variable contents. Virtually all studies that examined assurance statements have noticed various forms of variability in its contents (Deegan et. al, 2006; O' Dwyer and Owen, 2005; 2007; Kolk and Perego, 2012; Manetti and Toccafondi, 2012; Perego, 2009; Simnett et. al, 2009; Ball et. al, 2000). While it is slightly understandable for a practice that recently emerged and is still evolving, the total absence of documentation on the variability of assurance statements content from the views of assurance providers leaves a gap in the literature. Therefore, it seems suitable for a study to investigate assurance provider's perspectives on the apparent variability that appears in the content of assurance statements.

Investigating stakeholder considerations in sustainability reporting assurance from the perspective of assurance providers has not been done in abundance. The study by Edgley et. al. (2010) explored stakeholder issues with assurance providers, but the focus was on benefits and processes of stakeholder inclusivity in assurance. This present study

intends to enhance the understanding of assurance providers' perspectives on stakeholders' involvement and assurance of stakeholder engagement disclosures towards an attempt to enhance stakeholder accountability and transparency.

The motivation behind the need to investigate the appearance of stakeholder issues in assurance statements is based on the incongruence that exist between the literature and actual assurance statements. A large body of literature argues that sustainability reports should primarily be in the best interest of stakeholders (Manetti, 2011; Gray, 2007; Deegan and Unerman, 2011; Bebbington et. al, 2007; Gray et. al, 1996) and should encourage stakeholder participation in assurance engagements (Manetti and Toccafondi, 2012; O' Dwyer et. al, 2011; Ball et. al, 2000; Adams and Evans, 2004; Jones and Solomon, 2010; Kolk and Perego, 2010). However, stakeholder participation in sustainability reporting assurance has remained minimal (O' Dwyer and Owen, 2005; 2007).

From a theoretical perspective, assurance providers can also contribute to the understanding of sustainability reporting assurance. Credibility of assurance engagements is, to a considerable degree, based on the competence and reputation of assurance providers as suggested in the audit theory (Power, 1999). The audit knowledge base required for new forms of assurance services to be properly applied must be well understood by assurance providers (O' Dwyer, 2011; Power, 1996). Steps taken by assurance providers to build and maintain the credibility of assurance engagements are quite similar to the assumptions in the legitimacy theory (O' Dwyer et. al, 2011; Power, 2003). Securing legitimacy

of assurance statements assist in building its credibility, particularly from the view of users. Since assurance providers commission assurance engagements, they are in a practical position to offer their thoughts on credibility and legitimacy of assurance engagements.

For consistency of sustainability assurance, its collective similarities strengthen the general institutionalisation process of the practice. Assurance providers take decisions during assurance processes, they are therefore crucial in facilitating the consistency and similarity assurance statements actually possess. Hence, assurance providers can shed light into the similarities that appear in assurance statements (emphasis on institutional theory). The idea is to investigate whether there are isomorphic elements that can explain assurance provider's decisions on certain aspects of assurance. The similarities of assurance engagements will also be investigated in relation to the nature of addressing stakeholder issues and stakeholder participation in assurance services (using the stakeholder theory). This is perceived as one of the topics assurance providers can make a valuable contribution to, due to their close association with the practice. The views of assurance providers on stakeholders can assist in providing an internal perspective on the extent by which stakeholder accountability is considered in sustainability assurance.

In summary, this phase of the study will specifically seek to explore the variance that appears in assurance statements from the perspectives of assurance providers, an approach that is largely missing from literature. Investigating variance in assurance statements raises significant questions

about the accountability implication of the practice itself. Interview evidence from relevant assurance providers could assist in building a coherent understanding of the reasons why assurance statements are accompanied with elements of varying representation. Based on the audit theory, the primary purpose of assurance is an attempt to demonstrate greater levels of transparency and accountability from companies' activities (Power, 1994). This notion is considered alongside assurance providers' views. Consistent with legitimacy theory, the ability for assurance to demonstrate values that enhance the perception associated with the practice is investigated. Based on the institutional theory, the perspectives of assurance providers will be monitored for convergence or divergence to indicate similarities and differences about assurance. In line with the stakeholder theory, assurance providers' concern for accountability to stakeholders will be considered. Assurance providers are highly relevant given their active role in assurance processes that directly affect final assurance statements. As a result, the second research question for this study is:

RQ2: Why are the variances of sustainability reporting assurance associated with the respective roles of assurance providers in assurance processes?

2.10.3 Stakeholders

Previous studies have shown that while sustainability assurance has made considerable progress, perspectives of the main party for whom sustainability assurance is designed to benefit according to the rationale

of social accounting based on the argument by Gray (2001)²⁹ and Owen et. al. (1997), remain absent in exploring key aspects of the practice. The study by Park and Brorson (2005) argued that links should be established between assurance services and credibility of sustainability reports. Thus, both companies and assurance providers should pay attention to stakeholders concerns in sustainability reporting and assurance for robust stakeholder accountability. The contribution to literature by Adams and Evans (2004); Park and Brorson (2005); O'Dwyer (2011); Manetti and Tacoffondi (2012) all argue in support of the crucial role of stakeholders in social and environmental reporting assurance.

Studies by O' Dwyer and Owen (2005 and 2007); O' Dwyer et. al. (2005); Perego and Kolk (2012); Manetti and Toccafondi (2012) have paid particular attention to stakeholder inclusivity in their respective studies, but all from a managerial perspective, using corporate reports. Scholars have recommended 'engagement research' as a viable mechanism that can contribute to the sustainability accounting literature (Cooper, 2005; Thompson and Bebbington, 2005; Bebbington and Gray, 2001; Bebbington et. al, 2007). The argument is based on the position that sustainability research has been hampered by 'limited attention to field based research engagement' (Parker, 2005: 849), leading to the conclusion - 'research that does not engage is at best partial' (Adams and Larrinaga-Gonzalez, 2007: 346).

²⁹ 'Unless social accounting is about accountability, democracy and sustainability (and thus issues of justice), it is failing in its principle purpose' (Gray, 2001: 11)

The level and nature of stakeholder participation in sustainability assurance research is simply inadequate for such a concept to be understood and improved into a practice that societies can rely on, even though O' Dwyer et. al. (2011) and Manetti and Toccafondi (2012) acknowledge that stakeholder dialogue and debate in assurance is growing. However, the studies drew perspectives from assurance providers (interviews) and corporate reports (assurance statements) respectively. Edgley, Jones and Solomon (2010) examined the benefits and extent of stakeholder inclusivity in assurance engagements, but only from the perspective of assurance providers. The direct views of stakeholders about sustainability reporting assurance appear to be missing in the literature.

As assurance fundamentally attempts to serve stakeholder information needs (Adams and Evans, 2004), the expectations of these stakeholders form an integral element in assessing the effectiveness of the practice. Expectations of stakeholders can be used to examine actual level of assurance performance. Any observable difference that appears between stakeholder expectations and actual assurance performance effectively creates an assurance expectations gap. The notion of an expectations gap has been utilised in various fields of empirical analyses (Li et. al, 2012; Deegan and Rankin, 1999; Brennan, 2006), particularly in relation to conventional (financial) audit practices from around the world (Noghondari and Foong, 2013; Porter, 1993; Humphrey, 2008; Gold et. al, 2012; Haniffa and Hudaib, 2007; Harding, 2010).

Audit provides confidence that certain information is accurate and credible, whereas the expectation gap could assist in the assessment, based on users' expectations, of the disclosed information. The association between audit practices and expectations gap makes it possible for stakeholders' perspectives (expectations) to be relevant in determining the credibility and quality of sustainability reporting assurance (audit theory).

Also, stakeholders' views create an opportunity to examine the legitimate status of sustainability reporting assurance based on the perception of external observers, since legitimacy theory argues that the status of legitimacy is granted by external observers (Deegan and Unerman, 2011). The opinion of stakeholders about the nature of assurance will present a valuable input in evaluating legitimacy of the practice. Particular focus will be given to variability in the content of assurance statements and how it influences comparability and understanding. While the position of stakeholders is viewed as a collective opinion based on legitimacy theory, the views of individual stakeholders is of crucial importance in terms of stakeholder theory for analysing stakeholder accountability. Obtaining stakeholder views about sustainability reporting assurance enable actual stakeholder needs to be identified. This is in addition to stakeholders' assessment and perceived value of assurance practices.

In general, perspectives of stakeholders about the state and value of sustainability reporting assurance is undocumented in literature. This study intends to obtain and understand this vital fragment of assurance that has been missing and is crucial to the practice. Based on the audit

theory, perspectives of stakeholders will serve as an external voice on sustainability assurance regarding the accountability, transparency and quality of assurance engagements as well as sustainability reports. Stakeholder views on assurance would provide an external perspective on the value of the practice, which could serve as a measure of its perceived legitimacy (legitimacy theory). Also, the extent to which assurance serves to provide stakeholder accountability based on the stakeholder theory, from the opinion of stakeholders is explored. The purpose of sustainability disclosure only adds to the importance of uncovering the perceptions of stakeholders towards enhancing the robustness of sustainability reporting assurance. As a result, the third research question is:

RQ3: How do stakeholders perceive assurance practices of sustainability reports?

2.11 Conclusion

One of the main motivations of this study is to elicit the perspective of assurance providers and stakeholders about sustainability reporting assurance practices since evidence from prior literature has shown its paucity. The literature review presented above provided evidence to support the growing trend of sustainability reporting assurance as a means of discharging more accountability to stakeholders. This practice is viewed as one that is only likely to develop, for as long as stakeholder groups are increasingly becoming aware of the implications of corporate activities on society. Thus having an understanding of assurance practices will assist in its development, which will aid the social and environmental

accountability cause. While there are a number of studies on assurance practices, this one intends to add to the existing literature by accommodating the perspective of assurance providers and stakeholders regarding assurance processes. The research questions outlined above ensure that the perspective of company management, assurance providers and stakeholders groups are taken into consideration. Details on steps taken to adequately answer the research questions are provided in the following chapter.

Chapter Three: Research methodology

3.1 Introduction

This chapter presents the methodology adopted in order to ensure all aspects of the research questions are adequately answered. The research methodology chapter describes the empirical data collection and analysis approaches used in this study as well as the considerations and justifications for the chosen methods. In the next section, a brief review of the research philosophy is presented. Section three covers methodology and methods. Section four deals with the process of quantitative data collection and analysis employed while section five covers that of the qualitative method. Section six and seven are the research evaluation and ethical considerations respectively. The chapter concludes in section eight.

3.2 Research Philosophy

A salient aspect when undertaking research is to consider various research philosophies and paradigms, as they affect the way a research is carried out, right from problem formulation to conclusion. Research philosophies can be a guiding path for undertaking research studies. An understanding of these philosophies enables a researcher to effectively align the adopted paradigm with the nature and aims of a study, and also identify as well as minimise research biases (Flowers, 2009). Two interrelated philosophies are considered in this study – ontology and epistemology.

3.2.1 Ontology

Ontology, according to Grix (2002) 'is the starting point of all research', which constitutes what one accepts as reality. Ontological positions are assumptions about what exists, what it looks like, what units it is composed of and how these units interact with each other (Blaikie, 1993). Ontology is the basic element of every research as it initially questions the existence or reality of a researcher's field of enquiry. There are broadly two ontological positions – objectivism and constructivism. Objectivism posits that the existence of social phenomenon and their meaning are independent of social actors. While constructivism asserts that the existence of social phenomenon and their meaning are constantly achieved by interaction of social actors (Bryman and Bell, 2007). Ontological positions assist to define what exists or what is out there to know but not how to know what exists.

3.2.2 Epistemology

Epistemology is the philosophy of knowledge, which is concerned with how one comes to know (Hatch and Cunliffe, 2006). Epistemology focuses on the processes of gathering knowledge, which leads to the development of theories and models (Grix, 2002). Epistemology can be viewed as the next step of ontology, where ontology defines reality and epistemology defines the ways in which knowledge about reality is generated. Hence, Flowers (2009) suggests both ontology and epistemology have an interdependent relationship as they both inform and depend on each

other. Attached to epistemology are various forms of research approaches that aid in addressing how knowledge is being produced.

An epistemological position that is widely used in research is positivism. Positivism is an idea, which purports that social research should be carried out using natural science techniques. Positivists suggest the existence of the social world is objective and that the validity of knowledge is based on observations of external reality, also there are general laws which make developed theories generalizable (Flowers, 2009). The positivist position follows specific procedures to ensure observations are consistent and accurate (Walliman, 2006). However, Bracken (2010) argues that, by constantly adopting specific procedures in the study of social phenomenon, positivists are ignoring the role and meaning of the human agency in the realistic world. Hence, there is a need to consider an alternative epistemological perspective known as interpretivism.

Interpretivism is an epistemological perspective, which advocates that the social world is shaped by the interactions, experience and expectations of individuals and groups. These interactions by individuals produce and reproduce the meaning of a phenomenon, based on individual experience with different interpretations (Flowers, 2009). Interpretivists acknowledge that there exist multiple realities for every phenomenon, idea or concept, therefore, it is important to understand each individual experience and the contextual factors affected, influenced and determined by the individual's interpretation (Denzin and Lincoln, 2003). Thus, reality can be understood through subjective interpretation and intervention when studying a phenomenon in its natural environment. The strategy of an

interpretivist approach is based on the subjective meaning of a particular social action (Grix, 2002), which limits the ability to generalise or presents the case of generalisation specifically within the context of phenomenon investigated (Williams, 2000).

For the essence of this research, a positivist perspective would not provide an adequate picture of stakeholders' involvement in assurance practices because the researcher is limited only to external observation of the phenomenon using specific techniques. Thus, the interpretivist perspective is utilized as it provides substantial inputs due to its support for interaction with social actors that shape the phenomenon under question. The use of external observable facts should not be entirely ignored as they play a crucial role in determining the existence and nature of the phenomenon. As such, the philosophy adopted in this research is largely based on the interpretivist ideology that encourages interactions with social actors towards accessing and understanding reality through social constructions. However, an element of observation will also be utilised to assist in developing a preliminary understanding of the state of sustainability assurance and also reveal the identity of relevant actors within the practice. This will aid the study to understand and explain the underlying mechanisms of the issues in social and environmental/sustainability reporting assurance practices.

3.3 Methodology and Method

Building knowledge about most societal phenomenon could essentially utilise a social research perspective. Social research is understood to be a

collection of methodologies and methods that researchers systematically and consistently apply to produce scientifically based knowledge about the social world (Neuman, 2006). Two influential elements constitute the body of any social scientific field of enquiry – methodology and methods. The concept of methodology and methods are interdependent and closely linked, but they are different. Methodology is the broader of the two as it deals with understanding philosophical assumptions, theoretical foundations, ethical principles and organizational context. Methodology also envelops methods, where methods deal with sets of techniques for choosing, measuring, refining, observing, collecting data, analyzing data and presenting results (Neuman, 2006).

Researchers should always consider the methodology of what they are about to study before moving onto the methods. The methodology of a study offers a wider view of the subject area along with its historical and theoretical foundations while method is limited to obtaining useful data that can make sense of the phenomenon under investigation. The method of collecting data should be consistent with the methodological assumptions of the study area. Thus, researchers should always ensure that there is a strong link between methodological processes and methods chosen (Bryman and Bell, 2007).

As this study investigates assurance services of sustainability reports, both the methodology and method approach to be utilised must be compatible with the practice. The methodology considerations as well as data collection and analysis processes should be employed in a meaningful and

consistent way to significantly increase the chances of the study's intended contribution by adequately answering the research questions.

3.3.1 Methodology

As the majority of previous studies on sustainability assurance practices have focused on companies shortlisted on a form of sustainability reporting awards scheme (O' Dwyer and Owen, 2005; 2007; Perego, 2009), an international review of companies (Simnett et. al, 2009; Kolk and Perego, 2012) or on the basis on adopting a specific standard/guideline (Manetti and Becatti, 2009). The target of this research is the UK, thus issues associated with assurance practices in the UK are mainly of concern in this study. Yin (2003) supported any type of research strategy in which a phenomenon can be empirically investigated using multiple sources of evidence (if necessary) in its original setting based on a pragmatic view of the world (Gray, 2002). Any component of the phenomenon under investigation (classified as individuals, groups, episodes, instances or a population) could be considered to make a valid representation in the study (Kumar, 2011). Such a position is consistent with the interpretivist process of inquiry.

One of the basic premise behind the interpretivism approach is the position of idealism which suggest that to investigate a phenomenon through a purely 'scientific process is to miss completely its fundamentally social, political and value-oriented character' (Guba and Lincoln, 1989, p. 7). This approach attempts to move beyond getting the facts (science) by including numerous relevant human, social, cultural and contextual

elements of situations. This provides the ability to explore and provide an in-depth understanding of a given phenomenon through interaction, cooperation and participation with social actors (Bryman and Bell, 2007), thus encouraging the use of a 'very flexible and open-ended technique of data collection and analysis' (Kumar, 2011). Interpretivism is characterised by the dynamic of 'negotiation', which considers the way things 'really work' or 'really are' but significantly concentrates on the meaningful constructions that relevant actors make sense of events and situations in which they find themselves (Guba and Lincoln, 1989). Interpretivists recognize the value of meanings by different relevant social actors, which creates the opportunity of various opinions, perspectives and experiences that can be critiqued but taken into account for a more complete understanding of phenomena (Guba and Lincoln, 2001).

The attributes of the interpretivist approach, seems to be viable in investigating assurance practices of social and environmental reports using UK as the main area of focus. The UK was selected due to the prevalence of sustainability reporting assurance in the country, having one of the highest number of companies associated with such practice in the world (KPMG, 2008; 2011; Kolk, 2010; Corporate Register, 2008). Also, other actors in the assurance process - assurance providers and stakeholders - can provide valuable inputs to this study through such an approach. The human, social and contextual elements within the interpretivist ideology are reflected through the perspectives of actors that are associated with the practice. Capturing the inputs from these various relevant actors associated with sustainability reporting assurance in the UK can assist in guarding against observer biases in order to add

reliability and confidence to the findings. Also, obtaining information from relevant actors significantly depends on the methods of data collection and analysis adopted for a given research study.

3.3.2 Method

There are a number of approaches that can be used to study corporate responsibility which have historically been dominated by quantitative approaches (Lockett et. al, 2006). Specifically, most studies on assurance of sustainability reports have been quantitative in nature (O' Dwyer and Owen, 2005; 2007; Kolk, 2010; Kolk and Perego, 2010; Ball et. al, 2000; Deegan et. al, 2006; Perego, 2009; Simnett et. al, 2009; Manetti and Toccafondi, 2012), while fewer have adopted qualitative approaches (Edgley et. al, 2010; Edgley et. al, 2015; Jones and Solomon, 2010; Park and Brorson, 2005; O' Dwyer et. al, 2011). In view of this and with the consideration that is consistent to the provisions of interpretivist ideology, the research technique adopted in this study is largely qualitative, however, properties of quantitative approach were initially used to identify key information and contacts within the phenomenon investigated. The mixed methods research approach has been growing since the 1980s and is particularly popular in business and management research (Bryman and Bell, 2007).

An essential reason for choosing any particular research method is to assist in strengthening the research project as well as limiting its weaknesses. With the discernible differences in the quantitative and qualitative approaches, using mixed methods enables a researcher to

capitalise on the strengths and offset the weaknesses associated with individual quantitative and qualitative research approaches (Bryman and Bell, 2007). The use of both quantitative and qualitative methods in a particular project allows a researcher to potentially have a bigger picture of the underlying phenomenon. This gives a researcher room to have a better understanding of the topic of inquiry in relation to the research problem than when a single approach - quantitative or qualitative - is adopted (Creswell and Plano Clark, 2011).

This study intends to adopt both quantitative and qualitative approaches in the endeavour to further explore and understand the dynamics of sustainability reporting assurance in the UK. The qualitative stage forms the main part of this research based on its expected contribution to the area, although the study begins with the quantitative stage, which serves as a foundation for the qualitative stage. The quantitative stage comprises of a systematic review of secondary data that presents relevant information on assurance practices of sustainability reports. The first research question of the study is answered in the quantitative stage, framed as: What is the nature of sustainability reporting assurance in the UK? This first research question examines the contents of assurance statements. Supporting research questions were developed to facilitate answering the research question, they are:

SRQ1a: What are the key characteristics of companies with assurance statements? This question deals with the identity of companies with assurance statements. This has been considered in most studies that reviewed assurance statements (Simnett et. al,

2009; Perego and Kolk 2012; Deegan et. al, 2006; Manetti and Toccafondi; 2012).

SRQ1b: What background information is included in assurance statements? This question examines the basic identifiable elements that are expected to be present in assurance statements: Background information includes details about assurance statements title, date, location, length and addressee (ISAE3000, 2005; AA1000AS, 2008). The studies by Deegan et. al. (2006), Mock et. al. (2007) and Manetti and Toccafondi (2012) considered assurance statements background information.

SRQ1c: What information is provided about assurance providers? Details on assurance providers are the main area of focus for this question. Assurance statements usually contain information that directly relates to assurance providers such as identity (recognised name) and type (accountants or non-accountants). O' Dwyer and Owen (2005; 2007) and Simnett et. al. (2009) examined assurance providers in their study of assurance statements.

SRQ1d: What information is provided about the main features of assurance statements? The final supporting question focuses on the main body of the assurance statements. This constitutes information about the assurance provider's independence, scope of assurance engagement, assurance work undertaken, conclusion of assurance and stakeholder consideration. The main features of

assurance statements have also been discussed in prior studies (O' Dwyer and Owen, 2005; Deegan et. al, 2006).

The quantitative analysis presents a picture of the nature of sustainability reporting assurance as well as the relevant actors that engage in assurance practices of sustainability reports. Information obtained in the quantitative stage is subsequently used to facilitate the direction of the qualitative stage as actors and key issues that can be further investigated using qualitative techniques are identified. These actors are used in the qualitative stage due to their knowledge or involvement in assurance practices as indicated in the content analysis. O' Dwyer et. al. (2011) Edgley et. al. (2010; 2015) and O' Dwyer (2011) adopted a similar approach in their respective studies. The idea behind the qualitative stage is two-fold: first, to explore the role of assurance providers in assurance processes, especially in relation to the apparent variances in the process. Second, to explore the perceptions of external stakeholders about the practice of sustainability reporting assurance. The qualitative stage answers research questions two and three.

The second research question is: Why are the variances of sustainability reporting assurance associated with the respective roles of assurance providers in assurance processes? Six supporting research questions were developed to cover the perspectives of assurance providers; they are:

SRQ2a: What is the purpose of sustainability reporting assurance?

This focuses on the value and benefits gained from sustainability assurance that serves as a reason and motivation for companies to

consider commissioning the service. The benefits of sustainability assurance were discussed by Edgley et. al. (2010), Jones and Solomon (2010), and Gray (2007)

SRQ2b: What processes are in place to enable and support sustainability reporting assurance? The role of assurance providers in promoting and creating more awareness about sustainability assurance to existing and potential companies is explored. Published reports by KPMG (2005; 2008; 2011 and 2013), GRI (2013) and ACCA (2014) have highlighted the relevance of sustainability assurance.

SRQ2c: How are the areas of focus for assurance engagement decided? This concentrates on assurance providers' perspectives on the processes of choosing parts/sections of sustainability reports to assure, given that whole sustainability reports are not subject to assurance (see O' Dwyer and Owen, 2005; Urzola, 2011).

SRQ2d: How are the common approaches for assurance perceived by assurance providers? This discusses the forms of approaching assurance engagements towards understanding why a particular assurance approach is utilised. The approaches for discharging sustainability assurance were raised in the studies by Perego (2009) and Manetti and Toccafondi (2012)

SRQ2e: Why should stakeholder engagement disclosure be assured and to what extent should stakeholders be involved in assurance?

This focuses on assurance provider's perspectives regarding the assurance of disclosed stakeholder engagement information and the participation of stakeholders in assurance. Stakeholder issues in sustainability assurance have been emphasized in previous studies (O' Dwyer et. al, 2011; Edgley et. al, 2010; Adams and Evans, 2004).

SRQ2f: What are the possible issues to consider for the future development of assurance? The future of sustainability reporting assurance from the perspective of active participants in the practice is discussed. The future of sustainability assurance was raised by Smith et. al. (2011) and Edgely et. al. (2010) as a feature of the practice that requires more attention.

The third research question is: How do stakeholders perceive assurance practices of sustainability reports? Three supporting research questions were formed to aid discussions of stakeholder views; they are:

SRQ3a: What values are associated with assuring sustainability reports? Stakeholders' perspectives on the benefits gained by assuring sustainability reports are explored. Sustainability assurance is regarded as a practice that should possess beneficial values to stakeholders (Adams and Evans, 2004; KPMG, 2008). Stakeholder views on this are presented.

SRQ3b: What are stakeholders' key areas of relevance regarding the state of sustainability assurance? This focuses on particular elements of sustainability assurance that are important to

stakeholders. Opinions on the key features of sustainability assurance (such as assurance scope, independence, assurance providers and stakeholder considerations) as discussed in the literature (Ball et. al, 2000; O' Dwyer and Owen, 2007; Owen et. al, 2000) is expanded from the perspectives of stakeholders.

SRQ3c: How could the practice of sustainability assurance be improved? This focuses on concerns of stakeholders about sustainability assurance as areas that need to be improved and included in the practice. Also, issues around the future of assurance were given due consideration. The views of stakeholders on the perceived future of assurance are explored, in line with the suggestion by Edgley et. al. (2010)

The use of both qualitative and quantitative methods is adopted in this study given its capacity to accommodate a systematic review of secondary data that will form the basis of the in-depth semi-structured interviews with actors that are relevant in social and environmental reporting assurance. Carrying out the research by focusing solely on a systematic review of secondary data will be ignoring other active mechanisms that are necessary to be explored for an improved understanding of the underlying phenomenon (Guba and Lincoln, 1989). Also, by directly interviewing assurance practices, there is no clear link (at least in the study) that shows the interviewees were recently involved in any assurance process (particularly assurance providers), given the nature of social issues which are constantly changing. The consequence of adopting this form of research approach is that numerous data will be generated

which calls for great care when collecting and analysing data at all stages. As a result, procedures used in obtaining and analysing data for the quantitative and qualitative stages are delineated below.

3.4 Quantitative Method

At this stage, assurance practices were systematically examined using the content of corporate documents to provide a foundation of the nature of sustainability reporting assurance, thus the unit of analysis is companies. Content analysis is a widely used approach in social and environmental research (Gao, 2011; Kuo et. al, 2012; Mirfazli, 2008; Thompson and Zakaria, 2004; Unerman, 2000; Gray et. al, 1995a; 1995b; Adams et. al, 1995; Dahlsrud, 2008; Neu et. al, 1998; Milne and Adler, 1999; Guthrie and Mathews, 1985; Deegan and Rankin, 1996; Deegan and Gordon, 1996), including sustainability reporting assurance research (Ball et. al, 2000; O' Dwyer and Owen, 2005; 2007; Deegan et. al, 2006; Manetti and Becatti, 2009; Manetti and Tocaffondi, 2012; Perego and Kolk, 2012; Kolk and Perego, 2010). Kabanoff et. al, (1995) points out that the importance of content analysis is based on the its ability to allow a researcher to analyse organizational values and attitudes, traces of which could be observed in corporate documents. The approach of content analysis emphasize that data collected should be objective, systematic and reliable (Gray et. al, 1995a; Guthrie and Parker, 1990), while according to Neuman (2003, p. 219):

‘Content analysis is a technique for gathering and analysing the content of text. The content refers to words, meanings, pictures,

symbols, themes, ideas or any form of message that can be communicated'

An essential aspect of content analysis is deciding on the type of document to be analysed (Unerman, 2000; Krippendorff, 1980; 2004), thus this study utilised assurance statements of sustainability reports as the preferred document. The content of these documents are analysed to identify current elements and trends in sustainability reporting assurance. Because of the number of companies that assure their sustainability reports in the UK, a sample is required to capture the relevant companies that actually publish assurance statements in order to yield material results.

A purposive sampling approach was used due to its qualities, which allows selection of cases from a specific group that has met certain criteria (Patton, 1990). Purposive sampling technique is more appropriate in studying phenomena that are quite rare or are relatively new, therefore not present in every setting (Walliman, 2006). Assurance of sustainability reports appears to be a practice that began less than two decades ago (Blanco and Souto, 2009), while literature and empirical research confirms this practice is dominated by large institutions (Park and Brorson, 2005; Simnett et. al, 2009; KPMG, 2008). Hence, a study about assurance practices of sustainability reporting in the UK should first of all pay attention to the group of largest companies in the UK as the target sample for data collection.

3.4.1 Data Collection

As large companies have the resources to deal with voluntary, social and environmental issues including assurance of sustainability reports, the FTSE 350 -which is the largest group of companies in terms of market capitalisation in the UK- is the source of data collection for this stage of the study. The list of constituent companies in FTSE 350 index is regularly updated and is publicly available at www.ftse.com, the sample constituent companies used in this study was obtained on 4 August 2011. The FTSE 350 consists of publicly trading companies from different sectors with many of them having some form of social and environmental responsibility strategy (KPMG, 2008; 2011). Assurance statements are accompanied with some of the social and environmental/sustainability reports of these companies.

The assurance statements were obtained through every company's website: available to download or to order. A direct link to all FTSE350 constituent company websites was gained via London Stock Exchange website: www.londonstockexchange.com. The sustainability reports of the previous fiscal year for each company was obtained; in a situation whereby a company's report for the previous fiscal year was not available, the latest available report as of December 2011 was used. All the companies' sustainability reports were obtained and organised to commence data analysis. A list of all the companies is available in Appendix IV.

3.4.2 Data Analysis

A preliminary check was undertaken to separate standalone sustainability reports and financial reports with sustainability disclosure (excluding summary reports). Companies' reports with no sustainability disclosure are entirely irrelevant to this study and therefore not included. A further check on the relevant sustainability reports was conducted to confirm the presence of an assurance statement, which is of primary concern. Sustainability reports without assurance statements are again irrelevant and thus not qualified for analysis. Qualified reports were studied with particular attention on their assurance statements. Every assurance statement was read at least twice and then numbered before transferring the relevant contents. The extraction of information from the assurance statements was done using the developed evaluation template.

The evaluation template is composed of elements sourced from the sustainability assurance literature (O' Dwyer and Owen 2005; 2007; Deegan et. al, 2006) and recommendations in assurance guidelines: IAASB ISAE3000 (2004) and AccountAbility AA1000AS (2008). The evaluation template is composed of 52 different elements termed as Evaluation Template Questions (ETQ). Each element was assigned a coded number, which can be viewed in Appendix III. Content of the assurance statements were considered alongside every element in the evaluation template. The assurance statement response to every question in the evaluation template was documented using an excel spreadsheet. This is to assist in

ensuring easier systematic review of all the assurance statements as all assurance statements in the sample went through the same process.

After some assurance statements were used to complete the evaluation template, a preliminary analysis was undertaken to test the evaluation template and the process, which served as a pilot study (attached in Appendix II). Observations and adjustments on the pilot study findings were made before completing the evaluation template of the whole sample. A collective examination of the completed spreadsheet was undertaken to provide a picture of the state of assurance practices. While a broad idea of the findings began to emerge when completing the evaluation template, content of the assurance statements were compared to the completed evaluation template to ensure that the right information was transferred. The systematic evaluation did not only provide a trend of assurance practices, it also enabled this study to identify other relevant actors that are instrumental in assuring the sustainability reports. This was important for the next stage of the research.

3.5 Qualitative Method

This stage continues to build upon the findings that emerged from the quantitative method approach. The secondary analysis of quantitative data limits researchers' ability to probe beyond the available secondary documentation on the topic of inquiry and focus of study. Being a crucial part of this research, this stage aims to explore the assurance practices of social and environmental reporting in the UK with particular emphasis on the variances that appear in the statements. The approach at this stage

consists of detailed investigation on particular aspects of sustainability reporting assurance by eliciting the views, perceptions and expectations of informed actors in sustainability reporting assurance. Results obtained in the quantitative stage have assisted in identifying some of these actors, which was used to facilitate qualitative semi-structured interviewing of the actors in their respective natural settings.

Qualitative interviewing allows participants to give their account while the researcher listens and asks more questions in the process of exploring the already developed research questions; this adds a dimension to assist in approaching questions from different angles and in greater depth (Mason, 2002). Also, participants have control and freedom in the interview situation to enable them talk about issues freely and extensively and at the same time refuse to answer any question they have no intention of answering. Interviews could lead to long conversations, which can give rise to discussion of frivolous issues that can cause biases in the obtained data. As a result, researchers in qualitative interview situations are always required to keep focus on learning the meaning that interviewees hold in relation to the research objectives and not the meaning the researcher brings to the research (Creswell, 2009; Cooper and Morgan, 2008). Thus, a researcher must target participants that are relevant to the phenomenon under investigation.

The approach of qualitative interviewing had previously been adopted in social and environmental accounting research. The studies by Adams and Frost (2008); Adams (2002); Farneti and Guthrie (2009); O' Dwyer (2002); O' Donovan (2002); Islam and Deegan (2008); Hedberg and Malmberg

(2003) all utilised interviews to investigate various aspects of corporate sustainability practices. Furthermore, evidence in studies that explored sustainability reporting assurance by Edgley et. al, (2015); O' Dwyer et. al. (2011); O' Dwyer (2011); Jones and Solomon (2010) Park and Brorson (2005); Edgley et. al. (2010) were accumulated through semi-structured interviews. As a result, interviews in sustainability reporting assurance research is not a novel practice and will hence play a crucial role in this study.

3.5.1 Contacting Interviewees

The interviews conducted in this study are classified into two different groups – assurance providers and stakeholders – therefore two contact lists were created. The contact lists assisted in establishing communication with potential respondents. When developing the contact lists, it was important to select potential participants who have experience in the phenomenon being explored (Creswell and Plano-Clark, 2011). While Robson (2002) raised concerns about introducing bias in research by selecting interviewees, such an approach is consistent with the interpretivist methodology, which encourages investigation of phenomena with actors that are within its context (Guba and Lincoln, 2001). The use of best sample exemplars in a study was strongly recommended by Gray et. al. (1995). The processes of developing the contact lists for interviewed assurance providers and stakeholders were dissimilar given the nature of the two groups and their respective roles in sustainability assurance.

Assurance providers were primarily identified through the review of assurance statements, which helped to identify 20 organizations that have actually been involved in assuring sustainability reports of companies. An Internet search was then conducted on all the websites of the assurance providers in order to narrow down the contacts to specific individuals or departments. The names, email addresses and office addresses were compiled and included into a preliminary contact list for assurance providers.

Communication with stakeholders was established primarily through a series of Internet searches on websites of organizations with known history in advocating and promoting issues around sustainability and/or assurance, excluding assurance providers and reporting companies. Such organizations were classified into NGOs (e.g. Friends of the Earth), professional organizations (e.g. GRI) and consultancies (e.g. Carbon Smart). Specific individuals were identified based on their association with sustainability reporting and assurance from the information provided in respective websites. Some websites did not have details on individuals; hence their department names were noted. Contact information, particularly emails (personal emails excluding general office enquiry email addresses) and office addresses were obtained. This resulted in a preliminary contact list of potential interviewees. In an effort to make the preliminary contact list longer based on the realistic expectation that not all contacts will accept participating in the study for various understandable reasons, an additional approach was used. This approach required obtaining publicly available professional documents (on sustainability reporting and assurance) published by the initial set of

organizations (used in creating the contact list) either individually or in collaboration with partners and associates but available in their respective websites. These documents, in many cases, are accompanied with names and contact details (mostly email addresses) of various individuals and organizations that participated or are relevant in the sustainability reporting and assurance discourse within respective reports. Their details were subsequently included in the preliminary contact list of stakeholders.

Formal request letters were drafted detailing an overview of the study and the type of information required from respective participants (Bryman and Bell, 2007). The content of the two sets of letters was specific to assurance providers and stakeholders based on the focus of the study, in order to ensure that potential participants understand what is expected of them and the capacity of their participation in the study (as assurance providers or as stakeholders). The letters were sent to all individuals in both contact lists through their emails and by post. Response time was much faster for the emails, at less than 24 hours. The fastest response for letters by post was around a week. The majority of the letters resulted in various responses such as not accepting to participate mainly due to commitment or unavailability, accepting to participate (a date was arranged for the interview within a month of responding) and accepting to participate but not immediately (a date for the interview was arranged on a later date, the longest being almost four months from the date of sending the initial request letter).

3.5.2 Interviews

All interviewees included in this study have either directly been involved in assuring sustainability reports for many years (assurance providers) or possess considerable knowledge about the subject area (stakeholders). This basic criterion was emphasized and strictly adhered to in selecting potential respondents for participation in the study. Guba and Lincoln (2001) argued that ideal participants in a research should be considered based on the 'virtue of stakes they hold in the entity being evaluated' (p. 2). Since not all companies practice sustainability assurance, only companies with the knowledge of this practice are able to make a contribution to the study. Indeed, Edgley et. al. (2010) and Urzola (2011) adopted a similar approach.

The assurance providers selected for this study were all involved in assuring sustainability reports of the largest companies in the UK. All interviewed assurance providers attested to being involved in assuring sustainability reports of FTSE350 companies between 2011-2013. The average annual number of times interviewees assured sustainability reports varied but it ranged from 2 (fewest) to 10 (highest). The duration of assurance providers' association with discharging sustainability assurance also varied. The lowest was a respondent who has been assuring sustainability reports for 4 years while the highest has been involved in not only assurance but also developing its methodology and overseeing its implementation across a number of firms (all known for providing sustainability assurance services) since 1995.

This study made a specific effort to ensure representatives of the major firms providing sustainability assurance were interviewed. The Big 4 accountancy firms are known to have a key influence in sustainability assurance (Manetti and Toccafondi, 2012; Simnett, et. al, 2009; Perego, 2009), as such representatives of all Big 4 accountancy firms were amongst those interviewed. Edgley et. al. 2015 also interviewed representatives from all the Big 4 accountancy firms. There was more than one representative from two Big 4 firms, resulting in a total of six interviewed accountant assurance providers in this study, all members of Big 4 firms. Representatives of non-accountant assurance providers also featured in this study, including those from major firms. However, it was not possible for more than one representative to feature in the study, but given the higher number of non-accountant assurance provider firms, seven interviews were possible. Thus, a total of thirteen assurance providers were interviewed in this study as shown in Table 3.1 below.

Table 3.1 Interviewees – Assurance providers

| Interviewee code | Type of interview | Date of interview | Category | Duration |
|------------------|-------------------|-------------------|-----------------|----------|
| CA1 | Face-to-face | 10/12/2013 | Non-accountancy | 70 mins |
| CA2 | Face-to-face | 7/01/2014 | Non-accountancy | 74 mins |
| AA1 | Telephone | 16/01/2014 | Accountancy | 65 mins |
| CA3 | Telephone | 17/01/2014 | Non-accountancy | 36 mins |
| CA4 | Telephone | 24/1/2014 | Non-accountancy | 35 mins |
| CA5 | Telephone | 3/2/2014 | Non-accountancy | 60 mins |
| AA2 | Face-to-face | 12/2/2014 | Accountancy | 98 mins |
| CA6 | Telephone | 13/2/2014 | Non-accountancy | 69 mins |
| AA3 | Face-to-face | 24/3/2014 | Accountancy | 94 mins |
| AA4 | Face-to-face | 28/4/2014 | Accountancy | 74 mins |
| CA7 | Telephone | 29/4/2014 | Non-accountancy | 73 mins |
| AA5 | Face-to-face | 22/5/2014 | Accountancy | 50 mins |
| AA6 | Face-to-face | 7/8/2014 | Accountancy | 42 mins |

A different approach was used for selecting stakeholders to be interviewed due to the wider range of focus on potential participants. Creswell and Plano-Clark, 2011 recommended seeking the views of individuals with different perspectives on the phenomenon being investigated in order to secure a diverse set of data. There was a need to get stakeholders from different groups but primarily, their relevance and knowledge of sustainability reporting assurance was essential for a meaningful representation in this study. Due to these considerations, stakeholder groups were narrowed down to NGOs, consultants, professional firms (excluding representatives that are involved in discharging sustainability reporting assurance) and investors. NGOs have close associations and are actively involved in promoting sustainability and accountability in societies (Gray et. al, 2006; Unerman et. al, 2007; Bendell, 2000; Robinson, 2004). Thus relevant NGOs are in a good position to offer interesting perspectives on sustainability reporting assurance. Consultants are generally known to provide advisory services in virtually all aspects of corporate activities. This enables consultants to possess a wide range of knowledge on various issues and processes. The perspectives of relevant consultants assist in providing insights into issues around sustainability assurance. Professional organizations are crucial in developing and guiding the implementation of concepts and processes. In relation to sustainability assurance, representatives of organizations like GRI and FEE could provide valuable perspectives on the practice. Investors are arguably the most important stakeholders to companies as providers of capital, therefore their perspectives on the idea of and commissioning sustainability assurance seems valuable.

Table 3.2 Interviewees – Stakeholders

| Interviewee code | Type of interview | Date of interview | Category | Duration |
|------------------|-------------------|-------------------|--------------|----------|
| S1 | Telephone | 17/12/2013 | NGO | 43 mins |
| S2 | Face-to-face | 22/1/2014 | Professional | 79 mins |
| S3 | Face-to-face | 31/1/2014 | Professional | 60 mins |
| S4 | Telephone | 10/2/2014 | NGO | 27 mins |
| S5 | Telephone | 12/2/2014 | Consultancy | 43 mins |
| S6 | Telephone | 26/2/2014 | Professional | 70 mins |
| S7 | Telephone | 5/3/2014 | Professional | 47 mins |
| S8 | Face-to-face | 14/3/2014 | Consultancy | 62 mins |
| S9 | Face-to-face | 7/4/2014 | Investor | 58 mins |
| S10 | Face-to-face | 15/4/2014 | Consultancy | 66 mins |
| S11 | Telephone | 13/5/2014 | Consultancy | 44 mins |

The perspectives of assurance providers and stakeholders resulted in a total of twenty-four (24) interviews within 9 months (from 12 December 2013 to 7 August 2014) as shown in Tables 3.1 and 3.2. For a qualitative research, 24 interviews provided sufficient in-depth information to a point of saturation (Creswell and Plano-Clark, 2011). Similar studies on sustainability assurance by Edgley et. al (2010 and 2015) interviewed 20 assurance providers each. Interviewees were given the opportunity to choose a preferred method to hold the interview for their convenience in order to ensure that interviewees had a certain degree of control over the interviews (Robson, 2002). As a result, 12 interviews were face-to-face. 10 interviews were held at the interviewees respective offices while neutral locations were arranged for the remaining two face-to-face interviews. All the other interviews (12) were conducted through the telephone at the behest of the interviewees for their convenience.

All interviews commenced with a brief reminder of the study and the capacity of the interviewees' participation. At this point, some interviewees asked a few questions about how the study was going, while many asked about how they were identified as potential participants. A particular interviewee asked about the exact assurance statement that was used to identify their firm. Assurances (again) were provided to all interviewees about the confidentiality and anonymity of their participation in the study (Irvine and Gaffikin, 2006). They were all informed that a code name would be assigned to every interviewee for ease of identification, as shown in Tables 3.1 and 3.2. Any detail of the interview that could lead to the identity of any interviewee would not be included in the analysis (Robson, 2002). While the participation of these respondents is crucial to the study, the focus during analysis is more on the subject matter.

Before every interview, a broad outline of the interview questions was sent in advance to all respondents who agreed to participate in the study. The interview questions were sent to give the interviewees enough opportunity to reflect on their respective experiences on sustainability assurance and decide on the best response during interviews (Bryman and Bell, 2007). Knowing the questions beforehand helps in minimizing the time interviewees would need to think about responses, which is valuable in making best use of the time allocated by the interviewees. Questions asked during interviews were not in the same sequence but the initial outlined interview questions served as a guide to ensure all relevant issues were asked. The interview questions were modified during the course of the data collection process due to the responses and issues raised by

interviewees (Edgley et. al, 2010). However, this did not affect the original direction and focus of the study. Notes were taken during all interviews particularly on issues that needed further delineation (Walliman, 2006). An overview of every interview was documented along with reflections on issues discussed immediately afterwards.

Before asking the first interview question, permission was asked for each interview to be recorded (O' Dwyer, 2004). An explanation was provided to every interviewee that the purpose of recording was only to ensure accuracy of the interview. If for any reason the interviewee wanted the recording to be stopped, the interviewer would do so. All interviewees agreed to be recorded, even though some interviewees made some statements they clearly requested not to be included in the study. The face-to-face interviews were recorded with an MP3 player while the telephone conversations were recorded using a call recorder software called Ecamm Network. The interview in this study lasted between 27 minutes to 98 minutes as minimum and maximum length of interviews respectively (see Table 3.1). All interviews files were subsequently moved to a safe digital folder for transcription.

3.5.3 Analysis of Interviews

All recorded interviews were played back before being fully transcribed. The transcribing process took many hours to complete; therefore, effort was made to commence transcribing recorded data at the earliest opportunity (usually the next day). This was to minimise, as much as possible, backlog of recorded interviews to be transcribed. In situations

where interviews were conducted on consecutive days, transcribing took longer to start due to the preparation involved. All interviews were personally transcribed, which resulted in 355 pages of transcribed evidence. The transcripts were considered alongside interview notes for analysis, but because of the large size of data generated from the interviews, a data reduction process of analysis was utilised (O' Dwyer, 2004) to assist in the thematic analysis. Interview transcripts of assurance providers (205 pages) and stakeholders (150 pages) were separated to avoid mixing their perspectives since similar questions were asked.

All interview transcripts were read at least twice, where certain similarities and patterns in every interview started to emerge. During the third time of reading the transcripts, various codes were extracted to differentiate documents that contained similar perspectives, views and patterns (Irvine and Gaffikin, 2006). The extraction documents are composed of general interviewees perspective as a heading followed by the exact quotes of interviewees that were transferred from transcripts as well as the identifier code of every interviewee and respective transcript page. Even though the interview questions served as a rough medium to assist in classifying similar views of respondents, it was quickly discovered that the various responses addressed a much wider range of issues. Additional notes were taken for observations and reflections during the extraction process.

About halfway through the transcripts of assurance providers' interviews, the number of pages for each extracted code and the number of different codes were becoming too large. In order not to lose focus and keep the

data under control, all individual extracted documents were considered as sub-codes at this point; where the relationship and association between each code with consideration to the interview question used to elicit the perspective were carefully mapped out. This process enabled the integration of perspectives into major codes. Numerous similar views and ideas were condensed to form fewer codes that encompassed multiple sub codes. The outcome ensured there were longer extracted data in each major code but the documents used to extract data from transcripts became fewer.

Classification of the major codes enabled analysis of the remaining transcripts to be more formalised. Fewer sub codes emerged and if they did, their classification was made promptly (using the method outlined above), which in most cases happened to be part of existing major codes. The challenge after reading and extracting excerpts from interview transcripts was revisiting each major code for synthesis with the caveat of addressing meaningful and relevant aspects of the codes. For every sub code, a final compilation of interviewees' views was made, which referred back to the original transcript for confirmation. Interviewees' views that are consistent and those that tend to be in conflict with each other were noted under each sub code.

Due to the number of codes being assessed, summary tables were created for each code in order to provide ease of analysis. The table assisted in presenting the identified codes in a more understandable and less complicated manner, an analysis approach that is consistent with data display (O' Dwyer, 2004). The display of different interviewee findings in

tabular format assisted in identifying more patterns and confirming the existence of associations between patterns, while providing room to offer explanations from the collective interview evidence obtained. The visual display made it possible for the numerous patterns and codes to be developed into themes.

The themes emerged primarily from the data, even though there was a rough idea of potential themes in the initial interview guide questions. The interview data provided substantial basis for the final themes due to the observation that the interview guide questions appeared to limit the ability to take full advantage of all the relevant issues raised. Development of the final set of themes required an iterative process, which involved collating various codes together (to form the body of themes), checking the source quotes from interview transcripts of every code to confirm the context used, and always reflecting on whether codes assigned to every theme was an accurate representation of its content. Every theme was structured in a way of responding to a supporting research questions in order to maintain focus of specific issues. The subsequent writing up also involved helpful processes of countless revisiting of transcripts, which led to further reflections on various aspects of the interviews conducted.

3.6 Research Evaluation

This is concerned with the entire research approach adopted in relation to the phenomenon being studied, evaluation questions the steps adopted in the process of inquiry, which have a direct implication to the outcome of

this research. The evaluation of the quality of this research is predicated on two criteria -validity and reliability.

Validity is concerned with the integrity of the conclusions that were generated from a particular research study (Bryman and Bell, 2007). The main aspects of validity include construct validity, internal validity and external validity.

3.6.1 Construct validity

Construct validity is concerned with whether a tool or an approach used to measure a concept is actually able to measure the concept being studied (Bryman and Bell, 2007). In the Quantitative stage, all the elements used in the evaluative framework are relevant in establishing the nature of social and environmental reporting assurance, each particular element in the evaluative template assist in shaping the way assurance practices are being carried out. Also, these elements are in harmony with the concept of assurance practices simply because none of them will be present in a situation whereby practitioner companies are not engaging themselves with the practice. The indicators used in the evaluative framework are clearly outlined in the standards of sustainability reporting assurance by globally renowned bodies (AA1000AS; ISAE3000), which have also been used by prominent scholars (O' Dwyer and Owen, 2005; 2007; Manetti and Toccafondi, 2012) who have adopted these indicators in their respective studies to achieve substantial development in understanding the concept.

In the Qualitative stage, some of the indicators obtained in the quantitative stage assisted in identifying the relevant actors associated with the topic of enquiry. Also, necessary effort was made to ensure questions that generates as much relevant information on the nature of the practice being studied were asked to all respondents. This is to provide room for some sort of comparison between perceptions of interview respondents, with the expectation that respondents' perception varies given the nature of the phenomenon and the nature of interviews. The variance will be accepted as an additional dimension, which is a necessary requirement in understanding an emerging and complex concept like sustainability reporting assurance. The data obtained in the interviews are studied with consideration to details provided in the assurance statements used in the quantitative stage, this process is used consistently to ensure measures used are representative of the phenomenon being studied.

3.6.2 Internal validity

This considers the inclusion of causal relationship within the process of a research (Bryman and Bell, 2007). This is concerned with the relationship between indicators, where a particular indicator is related with another indicator. In the quantitative stage, which constitutes systematic review of corporate documents, internal validity was achieved by reviewing all the relevant documents in relation to the indicators to identify elements that are most common in the documents. These common elements are viewed as important indicators with the ability to influence other elements, which might collectively have the ability to influence the nature of sustainability

reporting assurance. To confirm the relevance of these common elements, the qualitative stage, mainly based on interviews, gave particular attention to understanding these elements further.

The attention was in the form of questions asked about these elements to understand and explore more clearly their influence on other aspects of assurance practices. It is believed that the respondents are in the right position to discuss the relationship between these indicators given their involvement in the practice as indicated in the corporate documents analysed in the quantitative stage. However, to secure this information, a certain level of rapport has to be established between the interviewer and interviewee to avoid biases. Discussing the research experiences and intentions with peers and relevant individuals also assisted in reducing biases, which aided in strengthening internal validity

3.6.3 External validity

External validity is concerned with the ability of research findings to be generalisable beyond the specific research context (Bryman and Bell, 2007). The type and size of sample used in a research project influences the external validity of that project. Quantitatively, a large number of companies were targeted, which are all generally considered to be large companies given the nature of the phenomenon under investigation and the assumption that large corporations dominate the practice. With the number and type of companies examined, relevant data obtained in relation to exploring the nature of sustainability reporting assurance in the UK can be generalized within the context of the practice and its location.

Qualitatively, external validity cannot be achieved by depending on the significantly smaller number of individuals from which data was collected. However, the form of qualitative external validity achieved is that of contribution to existing literature of sustainability reporting assurance. The small number of respondents provided substantial information to enable theoretical generalisation of a particular event in a given situation. The combination of quantitative and qualitative methods provides different forms of generalizability, all relevant in understanding sustainability assurance practices.

3.6.4 Reliability

Reliability is concerned with the ability of a particular study to be repeatable. The replicability of a study is determined by the nature of what is being studied and a detailed account of all the steps and processes adopted in the study. Quantitatively, reliability is achieved by selecting the appropriate type of cases from which relevant data can be obtained as well as how to obtain the documents, outline a compatible method of analysis that includes the extraction of required details, followed by a systematic examination of essential elements in the corporate reports.

Identifying each participant and his or her relevance to the study as well as preparing a detailed fieldwork guide are the methods used to achieve qualitative reliability. This guide assisted in capturing details of every interview including the interview environment, briefing the interviewee on the research project and questions to be asked. Mechanisms of

capturing data like the use of voice recorders and taking notes during interviews are all part of the fieldwork guide to ensure vital details are not lost or missed. Transcribing the interviews as well as utilising a proven and conceivable approach for analysing the interview data -data reduction and display for thematic analysis (O' Dwyer 2011; 2004)- contributes to ensuring reliability. The most important aspect of reliability is to ensure the processes undertaken in a research study are explicitly detailed to enable replicability of the study.

3.7 Research Ethics

Another area that should be considered when undertaking research is ethical issues, concerned with the way and approaches to which a research project is carried out. Ethical issues question whether research processes are discharged in an appropriate fashion that does not undermine the value of the research study. As a result ethical considerations are directly related to the overall integrity of a research project (Bryman and Bell, 2007). The ethical considerations in this study are largely considered during the interviews due to the contact with individuals. Given that ethics in research are important, professional associations in business and management research have formulated various codes of ethics for compliance by researchers. Amongst the ethical codes are common principles that require consideration for which impacts of a research approach are assessed on. These ethical principles are: harm to participants, informed consent, anonymity and confidentiality, and deception.

3.7.1 Harm to participants

As many approaches to research today involve interaction between researcher and participants, these participants could be harmed in various ways. Some of the ways in which research can harm participants according to Neuman (2006) are; physical harm, legal harm, psychological harm, and professional harm (harm to income and career). The interviews consisted of only questions to be asked and answered in a conducive and collective manner. Hence, physical harm was never an issue during the interviews of the study. Legal harm had little relevance, as the focus of this study is not concerned with illegal practices, also participants' confidentiality and anonymity were guaranteed.

Psychological harm could be present in the interviews due to the questions that were asked, which requires participants to think; where the researcher will try to probe on areas that are not clear enough; this might give rise to mental stress. To mitigate this, the participants were well informed about the area of study and sent an interview guide so as to be prepared for the questions asked. Also, the interviews were carried out in a private and silent environment where participants were most comfortable. Participants were provided with informed consent while anonymity and confidentiality were guaranteed to safeguard against professional harm.

3.7.2 Informed consent

This notion ensures participants are adequately informed about a research so that the participants can make a well-informed decision on a voluntary basis to participate in a research project. Informed consent was requested on two occasions for each participant: first, a cover letter was sent to all participants providing details of the study and why each selected participant is relevant to the study. Second, a brief overview of the study was presented before every interview commenced to ensure the participant was made clear about the focus of the study and both parties (researcher and participant) are on the same page.

Informed consent assists in ensuring that participants are being interviewed on a voluntary basis without any coercion and to ensure conscious judgement on not only participating in the research but also providing relevant inputs to the study. Informed consent also allows participants to freely reject participating in the research, outline areas in which a participant will not answer questions on or decide not to answer any question during the interview. The process of informed consent ensures participants are not harmed in any way while allowing them to discuss issues they are familiar and comfortable with. All these elements were considered during the interviews and made clear to interviewees. The guarantee of confidentiality and anonymity could assist in achieving informed consent.

3.7.3 Confidentiality and anonymity

Confidentiality is a process where specific details in data are kept in secret. These details are information that can be used to link specific individuals from their responses. While anonymity means distancing identity of participants from data, steps taken to ensure identity of participants remain absent in the data analysed (Neuman, 2006). Confidentiality and anonymity in this study was achieved by concealing all identifiable details of participants like names, addresses and organizations they represent, this information was removed from the data to enable the researcher focus on the context of the phenomenon being studied. The details of any single account was not be revealed to anybody as the recordings and transcripts were constantly treated as confidential elements of the study. Participants were all assured of confidentiality and anonymity prior to all interviews.

3.7.4 Deception

Deception is when a researcher presents research as something other than what it appears to be (Bryman and Bell, 2007). Never is deception accepted if a researcher could achieve the same objective without deceiving participants (Neuman, 2006). This study is not connected with any issue of deception as all participants were informed with as much accurate details of the study as possible, right from when seeking the initial informed consent to the end of each interview. This approach is necessary in order to realise the actual objectives of this study. In this type

of study, deceiving participants will only lead to conflicting or even wrong answers that will most likely take the study nowhere.

3.8 Conclusion

An outline of the methodological approach adopted in this study is discussed in this chapter. An interpretivist methodology is employed which is based largely on a qualitative approach with an initial assessment that comprises of quantitative elements. The combination of research techniques used is due to the nature of the phenomenon being investigated. Assurance of social and environmental reporting as a practice is still maturing, therefore, should be investigated from various accepted angles; thus, allowing this study to investigate the underlying phenomenon through a review corporate sustainability reports and engaging in semi-structured interviews with relevant actors. This approach is selected to provide a holistic picture of the nature of assurance practices in a way that is consistent to providing credible answers to the research questions.

Chapter Four: Content analysis of assurance statements

4.1 Introduction

This chapter focuses on providing answers to the first research question: What is the nature of sustainability reporting assurance in the UK? As stated in Chapter 3, this will be achieved through an examination of assurance statements to assist in building an understanding of assurance practices. General features of assurance statements are considered to assist in identifying the coherent characteristics of assurance engagements as reflected in the published statements. Furthermore, the findings are considered in light of the audit theory as well as assertions from legitimacy, institutional and stakeholder theories. Attention is also accorded to scholarly arguments and observations that appear to be useful in understanding issues relating to sustainability assurance practices.

To undertake this review, supporting research questions were formed, as outlined in Chapter 3 (section 3.3.2). The next section deals with identity of companies in the sample and those with accompanying assurance statements. The third section of this chapter concentrates on the first supporting research section, which deals with identifying and examining the characteristics of companies with assurance statements. The fourth section concentrates on supporting research questions two and three, which examines the basic background details of assurance statements and

the identity of assurance providers respectively. Section five is concerned with the main contents of the assurance reports. Issues of independence of assurance providers, scope of assurance engagements and opinion of assurance providers are all discussed in this section. Section six discusses stakeholder inclusion and engagements in sustainability reporting assurance as reflected in the sample statements. Section seven explores the nature of conclusion provided in the assurance statements. This is followed by section eight, which offers discussion in relation to the overall findings with consideration of theoretical constructs³⁰ utilized in this study. Finally, the chapter conclusions in section nine.

4.2 Social, Environmental and Sustainability Reporting

The presence of sustainability reporting assurance is highly predicated on the occurrence of sustainability information by the same reporting body, companies without reported sustainability information cannot be expected to be able to publish assurance statements. This position indicates the important role of reporting as a determinant for sustainability assurance, which is why sustainability information disclosure is firstly considered in this evaluation. Findings from previous research in this area indicate that the characteristics of companies reporting on social and environmental issues are associated with size and industry (Guthrie and Parker, 1990; Kolk, 2010; KPMG, 2011). Other characteristics include, but are not limited to ownership structure, legal and political system (KPMG, 2011; Jones and Iwasaki, 2011; Gray, 2007; Gray, et, al. 1995). As mentioned in the previous chapter (research methodology), the index of

³⁰ Audit, legitimacy, stakeholder and institutional theories

leading companies in the UK: FTSE350 (which is comprised of FTSE100 and FTSE250), are examined in the 2011 financial year. Table 4.1 outlines the proportion of companies that have disclosed, in detail, their performance on social and environmental issues.

Table 4.1 Social and environmental disclosure (evaluation template question 1.1)

| | With S&E information | | | Without S&E information | Total |
|-------------|----------------------|-------------|-----------|-------------------------|-------|
| | Annual report | Stand-alone | Total | | |
| FTSE100 (%) | 30 (30%) | 69 (69%) | 99 (99%) | 1 (1%) | 100 |
| FTSE250 (%) | 138 (55%) | 52 (21%) | 190 (76%) | 60 (24%) | 250 |
| FTSE350 (%) | 168 (48%) | 121 (35%) | 289 (83%) | 61 (17%) | 350 |

As indicated in Table 4.1 (evaluation template question 1.1) above, within the FTSE100 companies, only one company: Resolution Group Plc., failed to provide information about its social, environmental or sustainability performance either in a separate report or a dedicated section in its annual report. As a result, 99% of companies in the FTSE100 engage and disclose information about their social, environmental and sustainability performance. The figure in FTSE250 (76%) has dropped considerably, but practice of sustainability disclosure by constituents' remains at a significantly higher rate than non-disclosers. Collectively, 83% of companies in the FTSE350 index practice sustainability disclosure, when viewed in terms of market capitalization; companies with sustainability disclosure own 97% of the total market capitalization of the 350 companies in the sample. This demonstrates the collective size of

companies with sustainability information, thus, pointing to the inference that size matters in sustainability reporting. Size of companies remain a telling indicator of association with social, environmental and sustainability activities.

As most UK companies are associated with sustainability disclosure, identifying companies that disclose sustainability information according to their sector of operation provided a better indication of industry reporting performance, as provided in Table 4.2 below.

Table 4.2 Sector classification of social and environmental disclosure (ETQ 1.2)

| Industry | | S&E disclosure | No S&E disclosure | Total |
|--------------------|--------------------|----------------|-------------------|-------|
| Basic Materials | | 31 | 3 | 34 |
| Consumer Goods | | 24 | 0 | 24 |
| Consumer Services | | 57 | 2 | 59 |
| Financials | Equity investments | 6 | 41 | 47 |
| | Other financials | 51 | 10 | 61 |
| Health Care | | 8 | 0 | 8 |
| Industrials | | 62 | 2 | 64 |
| Oil & Gas | | 21 | 0 | 21 |
| Technology | | 13 | 2 | 15 |
| Telecommunications | | 8 | 1 | 9 |
| Utilities | | 8 | 0 | 8 |
| Total (%) | | 289 (83%) | 61 (17%) | 350 |

Table 4.2 shows all 350 companies categorized by sector and also grouped into those with social and environmental information and those without. There are 10 main sectors, classified according to FTSE's Industry Classification Benchmark (ICB, 2010). The sector with the highest number

of representatives within the FTSE350 sample is 'Financials' with 108 (31%) companies. A sub-sector within 'Financials' is presented: 'Equity Investment Instruments'. This is because, even as a sub-sector, it has the fourth highest number of representative companies in the FTSE350 index, with 47 (13%) companies, all constituents of FTSE250. However, the 'Equity investment' sub-sector account for the highest number of companies without social and environmental disclosure with 41 (67%) companies. Performance of the 'Equity Investment Instruments' sub sector is responsible for majority of companies without sustainability disclosure. This is probably due to the nature of operations carried out by firms in the sub sector, which appears to be investments and equity management but is not convincing enough to deter from social and environmental disclosure. Next, with a wide margin is 'Other financials' with 10 (16%) companies, this position shows that the 'Financials' sector alone account for 84% of companies without sustainability reports. The outstanding 16% is shared among companies in 'Basic materials' (3), 'Industrials' (2), 'Consumer Services' (2) and 'Technology' (1) sectors. This means that all companies in 'Oil & Gas', 'Consumer goods', 'Health care' and 'Utilities' sectors within the FTSE350 index are active in sustainability disclosure.

Collectively, both Table 4.1 and Table 4.2 provide more support to demonstrate that leading companies in the UK are active reporters of social and environmental issues (Adams, 1998), as represented in every sector. This could be an indicator that supports the presence of sustainability risks in all industries, even though, more should be done by companies in the Financials sector. The issue of sustainability disclosure in

the UK and around the world is evidently well examined (KPMG, 2008; 2011; Kolk, 2010; Campbell et. al, 2003; Gray et. al, 1995; 2001; Brown and Deegan 1999; Neu et. al, 1998; O’ Donovan, 2002). Hence, this study is more concerned with assuring the disclosed information, which is a particular issue that has to do with the quality of disclosure.

4.3 Assurance of Sustainability Reports

Given that sustainability reporting is evidently not practiced by all the companies in the sample data as indicated in Table 4.1 above, it is expected that a smaller fraction of companies will assure their sustainability reports. It should be noted that the practice of assurance is an emerging field with a growing trend around the world (KPMG, 2011). To date, particularly in the UK, assurance still remains a voluntary activity (Deegan et. al, 2006) while certain aspects of the practice are still contestable (Blanco and Souto, 2009; Power, 1997). Identifying sustainability reports that are accompanied with assurance statements will assist in understanding the range of companies that acknowledge the need to extend such service. Table 4.3 below presents the number sustainability disclosures that are accompanied with assurance statements.

Table 4.3 Assurance statements of social and environmental reports (ETQ)

| | With assurance statement | Without assurance statement | Total |
|-------------|--------------------------|-----------------------------|-------|
| FTSE100 (%) | 51 (51%) | 49 (49%) | 100 |
| FTSE250 (%) | 17 (7%) | 233 (93%) | 250 |
| FTSE350 (%) | 68 (19%) | 282 (81%) | 350 |

Table 4.3 illustrates that within the FTSE100; a little over half of the companies (51%) requested third parties to commission assurance statements on their sustainability disclosure. In the FTSE250, only 17 (7%) companies assured their reports, this is expected because the FTSE250 companies are clearly smaller than the FTSE100 companies, and thus have a lesser effect and expectation on sustainability issues as indicated in the literature (Neu et. al, 1998; Adams et. al, 1998; Gray et. al 1995; Gray, 2001). The 233 (93%) companies in the FTSE250 that have no assurance statements in addition to the 49 (49%) companies in FTSE100 have significantly affected the total number companies with assurance statements in the sample (FTSE350). As a result, 68 (19%) companies in the FTSE350 have requested the services of external assurance providers to assure, validate and verify their sustainability reports. Companies with assurance statements form 24% of the total companies with sustainability disclosure. This is a relatively low outcome considering that up to 76% of companies disclose their social and environmental information without making an effort to further convince users of the reports that the information disclosed is accurate and consistent from an independent perspective. At this stage, while not all companies that disclose are expected to assure, there exists a significant gap between the two set of companies. Table 4.4 shows companies with assurance statements by sector of operation.

Table 4.4 assurance statements by industry (ETQ 1.2)

| Industry | | S&E disclosure | Assurance statement | % Of assured |
|--------------------|--------------------|----------------|---------------------|--------------|
| Basic Materials | | 30 | 9 (13%) | 30% |
| Consumer Goods | | 24 | 8 (12%) | 33% |
| Consumer Services | | 56 | 12 (18%) | 21% |
| Financials | Equity investments | 6 | 0 | 0% |
| | Other financials | 51 | 14 (21%) | 27% |
| Health Care | | 8 | 2 (3%) | 25% |
| Industrials | | 60 | 8 (12%) | 13% |
| Oil & Gas | | 20 | 8 (12%) | 40% |
| Technology | | 12 | 1 (1%) | 8% |
| Telecommunications | | 8 | 2 (3%) | 25% |
| Utilities | | 8 | 4 (6%) | 50% |
| Total | | 282 | 68 | |

In Table 4.4, the industry classification of companies with assurance statements shows the number of sustainability disclosure by industry in the second column (ETQ 1.2). The second column is a part representation of Table 4.2 showing companies with sustainability information. The third column shows the number of assurance statements by industry, in parenthesis is the weighting of each industry towards the total number of assurance statements. The last column represents the percentage of assured reports in relation to companies with sustainability disclosure per industry. For instance, in the 'Basic Materials' industry, 9 assurance statements signify 30% of 30 companies with sustainability disclosure.

All the assured reports in 'Telecommunications', 'Utilities' and 'Health care' industries belong to the FTSE100 index. Companies in the FTSE100

make up the majority of assured reports in the industries as expected, except for 'Technology', which had one assurance statement from a FTSE250 company and 'Equity investment' where none of the FTSE100 companies are currently operating in the sub-sector. From the sample used in this study, all the major industries have at least one representative company with an assurance statement attached to their sustainability report. However, only the 'Utilities' industry managed to secure 50% of companies that assured their sustainability reports, this is followed by 'Oil and Gas' with 40%, all the other industries had lower contribution towards assurance statements with 'Technology' industry having the lowest with 1 out of 12 companies (8%).

When companies with assurance statements were separately considered against those without assurance statements, the first identifiable difference is the size of the companies. The size is estimated in terms of market capitalization of each company (ETQ 1.3.1). The estimated market capitalization of all the companies considered in the study is 1,654,891 (M£) whereas the market capitalization of all companies with assurance statements is 1,208,642 (M£). This implies that the companies with assurance statements (68) constitute up to 73% of the total market capitalization of all FTSE350 companies. Literature dating back to the studies of Watts and Zimmerman (1978), Patten (1992), Hackston and Milne (1996) Neu et. al. (1998) up to more recent assertions made by Othman and Ameer (2009) including an empirical study of large Swedish companies by Tagesson et. al. (2009) indicate a distinction between company sizes that large companies are more exposed to social and political pressures from relevant publics, and as a result they must strive

to build, promote and maintain their organizational legitimacy (Deegan and Unerman, 2011).

Even though Dowling and Pfeffer (1975) encouraged the use of communication in an attempt to achieve organization legitimacy, which is generally utilised by many companies today as illustrated above. Patten (1992) argued that social legitimacy is a function of the needs of relevant publics, where the needs of these relevant publics are always changing (Lindblom, 1993), therefore the type and nature of communication required by relevant publics is continuously subject to changes. In the context of sustainability reporting, companies could perhaps be enhancing communication with relevant publics by improving their reporting systems through assurance services. This could be as a result of current or potential pressures faced by particularly large companies to provide additional information due to their interaction and effect on larger stakeholder groups, which have made the companies' to be more visible, thus requiring more mechanisms of accountability (Cormier and Gordon, 2001).

The medium through which any corporate information is passed remains a crucial aspect in order to ensure that information reaches its designated party. The demand for different types of information from various groups of stakeholders have opened a path through which companies can communicate with their stakeholders using various channels. The accessibility of assurance information by relevant stakeholders has to be considered by every reporting company as an important issue (Adams and Frost, 2008). Companies decide on the medium for making assurance

statements available to various groups of stakeholder audience, the accessibility of assurance statements are presented in Table 4.5 below.

Table 4.5 Medium of assurance statement disclosure (ETQ 1.4)

| | Annual report | Stand-alone | Website | Total |
|-------------|---------------|-------------|----------|-------|
| FTSE100 (%) | 3 (6%) | 28 (55%) | 20 (39%) | 51 |
| FTSE250 (%) | 1 (6%) | 11 (65%) | 5 (29%) | 17 |
| FTSE350 (%) | 4 (6%) | 39 (57%) | 25 (37%) | 68 |

The main sources of how assurance statements can be accessed are through corporate annual reports, stand-alone reports or/and corporate websites as indicated in Table 4.5. Disclosing assurance statements within annual reports by both FTSE100 and FTSE250 companies are significantly low with only 4 (6%) companies doing so. All the companies that attached assurance statements to their annual reports also have their social and environmental information within the same annual report.

More than half (57%) of the companies presented their assurance statements in a stand-alone report, which is the highest medium of assurance statements disclosure (ETQ 1.4). 28 of these companies are part of the FTSE100, while the remaining 11 are FTSE250 constituents. For websites, 20 (39%) and 5 (29%) companies in FTSE100 and FTSE250 respectively disclosed their assurance statements in their respective corporate websites, resulting in a total of 25 (37%) companies. Amongst these 25 companies, 13 companies disclosed sustainability information in their respective corporate websites, 8 used stand-alone reports and 4 made the disclosure through their annual reports.

Although using websites as a tool for conveying assurance information occupies only a fraction of the sample, annual and stand-alone reports were all sourced from respective companies' websites. In other words, all the corporate information for this content analysis was obtained from the web. However, assurance statements in annual and stand-alone reports are not available in web pages, they had to be downloaded. Whereas assurance statements classified under websites are mainly available in web pages, not as part of a downloadable document. As all the data used in this content analysis were primarily sourced from the web in form of web pages or downloads, there should be an acknowledgement of the contribution of the Internet as a viable tool for disseminating sustainability information (Tagesson et. al, 2009; Adams and Frost, 2006; Unerman and Bennett, 2004).

In an attempt to achieve organizational legitimacy, Lindblom (1993) argued about the importance of communicating information to relevant publics, which the Internet seems to be used in achieving (Guimaraes-costa and Cunha, 2008; Adams and Frost, 2006; Branco and Rodrigues, 2007; Coupland, 2006). Furthermore, given the size of these large companies whose activities affect numerous relevant publics that constitute various stakeholder groups with different needs, possibly across a number of countries and continents, the Internet is perhaps used today as probably the most convenient means for meeting stakeholders' information needs at different locations around the world (Line et. al, 2002; Adams and Frost, 2006).

Now that companies with assurance statements and their accessibility have been outlined, the remainder of this chapter will concentrate on examining the contents of these assurance statements using the developed research evaluation template³¹ as discussed in Chapter 3.

4.4 Content of Assurance Statements

The characteristics of all companies in the sample have been evaluated above, with particular emphasis on those that engage in sustainability assurance. As such, 68 of 350 (19%) companies have qualified for the subsequent examination in this study because they evidently have assured their sustainability reports. While there are 68 companies with assurance statements, some companies published more than one assurance statements. These companies are:

- Balfour Beatty with 2 assurance statements,
- Land Securities Group with 3 assurance statements
- Lloyds Banking Group with 2 assurance statements, and
- Premier Oil with 2 assurance statements

Therefore, the total number of assurance statements in the sample is 73; this will be taken into consideration when examining elements of the assurance statements. The remaining sections of this chapter will focus on examining particular details that appear to be included as part of respective companies' assurance statements. The succeeding section concentrates on the background information of these assurance reports.

³¹ A sample of the evaluation template is available in Appendix III

4.4.1 Background of Assurance Statements

This section is concerned with the basic information about assurance statements, including elements that enable users to identify the assurance statement section and the party responsible for producing the assurance statements. This section answers the supporting research questions – what background information are included in assurance statements? And what is the nature of the information provided about assurance providers? Particular issues to be discussed in this section include; title of assurance statements, who are the assurance providers, category of assurance providers, addressee of assurance statements, location of assurance providers, length of assurance statements, date of assurance statements, guidelines used for assurance procedures, and level of assurance pursued.

Most professional and corporate reports are usually divided into sections, making it easier for readers to find and understand different aspects being discussed in the report. The section of assurance statement requires to be clearly identified so as not to be confused with other sections of a report. While various companies decide to name the title of their assurance statement sections with quite different albeit similar phrases in meaning, they nonetheless present an effort by assurance providers to install credibility in management reports. Table 4.6 shows the various titles of assurance statements.

Table 4.6 Title of assurance section (ETQ 2.1)

| Title of section | Frequency |
|---|-----------|
| Assurance | 4 |
| Assurance report | 1 |
| Assurance statement | 20 |
| Assurance statement and commentary | 1 |
| Environmental data verification statement | 1 |
| External assurance | 1 |
| External commentary | 1 |
| External review committee | 1 |
| Independent assurance report | 19 |
| Independent assurance statement | 12 |
| Independent audit | 1 |
| Independent auditors limited assurance report | 1 |
| Independent review of reported HSE performance | 1 |
| Independent review of reported social performance | 1 |
| Independent verification statement | 1 |
| Stakeholder opinion statement | 1 |
| Stakeholder panel statement | 2 |
| Verification statement | 3 |
| Verification summary | 1 |
| Total | 73 |

A total of 73 assurance statements were analyzed as four companies have published more than one statement as identified above. Balfour Beatty is responsible for the assurance title 'Independent audit' and 'Stakeholder opinion statement'. Land Securities Group published the assurance statements titled 'Assurance statement', 'External commentary' and 'Stakeholder panel statement'. Lloyds Banking Group Plc. commissioned

‘Assurance statement’ and ‘Environmental data verification statement’. Finally, Premier Oil disclosed ‘Independent review of reported social performance’ and ‘Independent review of reported HSE performance’ (a list of all companies is attached in Appendix IV).

Table 4.6 shows that significant number of statements used the term ‘assurance’ with about half of the sample using ‘independent’ (research question 2.1). Also, the word ‘stakeholder’ was used as a title of assurance statements in only 3 cases, while ‘verification’ has been included in only 6 instances as an assurance statement title. These finding contradict a previous study by Deegan et. al. (2006) that examined assurance statements of European companies. They observed that most assurance titles of UK companies appear to use the word ‘verification’, followed by ‘independence’ with the least being ‘assurance’. They however raised an issue in relation to using the term ‘verification’ as a title and were more supportive with the use of ‘assurance’. As bodies that produce reports cannot carry out their assurance procedures, the assurance providers are presumably responsible for the title of assurance statements since they take charge of assurance engagements.

The assurance provider is responsible for going through the content of a sustainability report, investigating management approach to sustainability issues, gathering evidence and presenting a conclusion on the accuracy and reliability of sustainability information disclosed by a company. Currently, there is yet to be a consensus as to who is best placed to carryout sustainability assurance engagements (Power, 1997; Deegan et. al, 2006), given that professional accountants have a long history and are

well experienced in carrying out audit engagements while social and environmental experts have a better understanding of sustainability issues (Corporate Register, 2008; Manetti and Toccafondi, 2012). This has created at least two broad groups of assurance providers (Edgley, et. al, 2015; O’ Dwyer, 2011; O’Dwyer and Owen, 2005; 2007; Edgley et. al, 2010; Perego, 2009; Simnett et. al, 2009)– accountants (all accounting firms including the Big Four) and non-accountants³² (consultants, social and environmental experts, engineers, certification bodies, NGOs and so on). Below is an outline of the assurance providers and their respective groups from this study’s sample.

³² The classification of non-accountant assurance providers enabled a more concise categorization.

Table 4.7 Assurance providers (ETQ 3.1 and 3.2)

| Name of assurance provider | Category | No of assurance statements |
|------------------------------|-----------------|----------------------------|
| Deloitte LLP | Accountants | 6 |
| Ernst & Young LLP | | 10 |
| KPMG LLP | | 5 |
| PwC LLP | | 12 |
| Acona partners | Non-accountants | 1 |
| Bureau Veritas | | 5 |
| Citrus Partners LLP | | 1 |
| Corporate Citizenship | | 9 |
| CSE | | 1 |
| Det Norske Veritas Ltd (DNV) | | 3 |
| ERM Ltd. | | 5 |
| LRQA | | 4 |
| Maplecroft | | 1 |
| RPS group | | 1 |
| Sage environmental LP | | 1 |
| SGS | | 2 |
| SKM Enviros | | 1 |
| Virtuous circle | | 1 |
| ERM CVS | | 1 |
| Ocean certification | | 1 |
| Stakeholder panel | Stakeholders | 2 |
| | | 73 |

The number of non-accountant assurance providers is greater than that of accountant assurance providers; this is possibly because only the Big4 accounting firms are associated with sustainability reporting assurance; as shown in Table 4.7 above. There are 16 different non-accountant

assurance providers in addition to one more category of assurance provider that is made up of external stakeholders, known as 'Stakeholder panel'³³. Thus, the accountant assurance providers (the Big4) have succeeded in assuring 45% of the total assurance statements in the sample (ETQ 3.2). This is consistent with the figures by O' Dwyer and Owen, (2007) and Deegan et. al. (2006) where the accountants have assured fewer reports. However, an accounting firm (PwC LLP with 12) has assured the highest number of reports followed by another accounting firm (Ernst & Young LLP with 10). This contribute in showing that even though the non-accountants are leading due to their numbers, the accounting bodies play a crucial role in assurance services (O' Dwyer, 2011). The third highest assurance provider is a non-accountant (Corporate Citizenship with 9), that facilitated the two stakeholder panel statements: Land Securities Group and National Grid (ETQ 3.1). This means that there are 4 assurance engagements in the sample that applied the stakeholder panel engagement approach; the remaining 2 are Royal Dutch Shell and Balfour Beatty. The diversity of professions, nature and cost of service delivery by the non-accountants aided in the higher number of assurance provided in the sample than the accountants.

When assurance providers are considered in terms of the title of assurance statements in Table 4.6 above, it was evident that accounting firms stay away from using the term 'verification' as a title, in line with observation by Deegan et. al. (2006). Given the few identified differences in assurance statements by accountants and non-accountants, subsequent

³³ A sample of stakeholder panel statement examined in this study is attached in Appendix VI

elements in this study will be considered in terms of the assurance provider type with the aim of providing further insight to the nature of sustainability reporting assurance.

A relevant element of assurance statements is the presence of an addressee. This indicates whom the assurance report is directed to, thus who the statement intends to serve most. Even though assurance practices are unregulated, audit of financial reports appears to be the most similar, compared to any other management activity. Financial audit reports are addressed to shareholders because the financial position of a company directly affects its shareholders. Assurance statements on the other hand can be addressed to a wider group of stakeholders because the social and environmental implication of companies' activities could affect a plethora of groups and individuals. This becomes somewhat difficult to pinpoint a target audience, nevertheless, the FEE (2002) and ISAE3000 (2004) guidelines recommend selecting an addressee within every assurance statement.

Table 4.8 Addressee of assurance statements (ETQ 2.3)

| Addressees | Accountants | Non-accountants | Stakeholders | Total |
|--------------|-------------|-----------------|--------------|-------|
| Company name | 14 | 4 | | 18 |
| Directors | 15 | | | 15 |
| Management | 3 | 1 | | 4 |
| No addressee | | 18 | 2 | 20 |
| Readers | | 6 | | 6 |
| Stakeholders | 1 | 9 | | 10 |
| Total | 33 | 38 | 2 | 73 |

Adams and Evans (2004) particularly argued for stakeholders to be the addressees of assurance statements, interestingly, only 10 assurance engagements directly addressed their assurance statements to 'stakeholders'. 9 of that fall within the non-accountants' category, 5 of these 9 statements were assured by Bureau Veritas. Only 1 assurance engagement by accountants was addressed to stakeholders: RSA Insurance Group assurance statement of Corporate Responsibility Report 2010 by PwC LLP. However, all the assurance statements without addressees fall into the non-accountants' category being the highest single frequency in the sample, this includes the two stakeholder panel statements facilitated by non-accountants. The other two stakeholder panel assurance statements by stakeholders also did not provide addressees. Thus, all the stakeholder panel statements (4) as well as 16 statements prepared by non-accountants resulted in the highest frequency about assurance statement addressees, which happens to be 'no addressee'. Non-accountants are not only highly responsible for contributing to 'no addressees', all the assurance providers that directed their statements to 'readers' were non-accountants, as shown in Table 4.8 above. For example, the assurance statement of CRH Corporate Responsibility Report 2010 by DNV Ltd stated 'this assurance statement is intended for the readers of the CRH CSR Report'.

All the accountants addressed their statements to a specified group (ETQ 2.3). 14 statements were addressed to the reporting company by stating their names, for instance KPMG's assurance statement of WH Smith's corporate sustainability report 2011 was simply addressed 'to WH Smith PLC'. An additional 15 were addressed to 'directors' of the company, while

the remaining 3 were addressed to 'management'. This position is supported by Deegan et. al. (2006) where assurance statements produced by accountants are accompanied with addressees, however, these addressees are all internal to the reporting companies. A uniform addresses of sustainability assurance statements would aid consistency and focus.

Issues discussed in assurance statements are expected to convince addressees that the assurance providers have carried-out a thorough assurance procedure. One indication of this could be the amount of explanation provided by the assurance provider, which can be easily noticed by the length of the assurance statement. The length of assurance statements in the sample ranges from a single page (18 assurance statements) to 7 pages (1 assurance statement), with most assurance statements covering two pages (34 assurance statements), accumulating an average of 2.2 pages per assurance statement (ETQ 2.2).

In terms of the type of assurance provider, most of the statements produced by accountants (18) were 2 pages long each, followed by 8 statements with 1 page, 6 statements with 3 pages. The last single assurance statement was 4 pages and happened to be the longest assurance statement by accountants in the sample, it was the assurance statement by Ernst & Young LLP of British American Tobacco Sustainability Report 2010. Non-accountants have produced assurance statements that covered the range of one page to seven pages, although none of the assurance statements in the sample covered 6 pages. The highest frequency of number of pages by non-accountants is 2 pages, which had

occurred in 15 cases, while the lowest is 5 and 7 pages, which occurred on a single case each. The assurance statement with 5 pages is Corporate Citizenship statement of National Grid Social Purpose Report 2010, while the statement with the highest number of pages was Bureau Veritas assurance statement of AstraZeneca Global, Corporate Responsibility Report 2010. The assurance statement covered 7 pages and was addressed to stakeholders, where three quarter of the statement contained information about recommendations and methodology (more detailed discussion about this ahead).

Generally, most assurance statements appear to be between a page and three pages long where 90% of assurance statements in the sample fell within this range. Both accountants and non-accountants had their highest frequency at 2 pages with up to 55% of assurance statements by accountants and 39% of assurance statements by non-accountants.

The ISAE3000 (2005) guideline advised assurance providers to include a date the assurance procedure was concluded to notify intended users that information provided about the subject matter had been assured up to the specified date. From the current sample, all the assurance statements appear to be dated apart from 9 (ETQ 2.6). The two stakeholder panel statements (Shell and Balfour Beatty), the second assurance statement of Balfour Beatty by DVN in addition to 6 more statements were published without a date, all assured by non-accountant assurance providers.

An unusual observation was made in the dates of two assurance statements, both assured by non-accountants. The first is SGS Group

assurance statement of GSK Corporate Responsibility Report 2010, which appear to be dated on February 2010, where it was stated in page 24 of the report that 'data relate to worldwide operation for the calendar year 2010'. February 2010 could hardly be considered as a reasonable time to assure information that covers what appears to be up to the end of December 2010. Furthermore, in the assurance statement section of the same report, page 193, the assurance providers stated that 'The assurance comprised of interim site visits during October and November 2010'. This date showed that the assurance engagement was not concluded in February 2010 simply because some assurance tasks were carried out towards the end of the 2010 calendar year. An error was made somewhere.

The second observation appeared in Maplecroft's assurance statement of Premier Oil Social Performance Report 2010, dated on 29 March 2010, where in the same page of the assurance statement of the report, it was stated that 'Our review of Premier Oil social performance policies and activities involved the following activities over the period of twelve weeks in early 2011'. This also is a sign that assurance tasks were undertaken after the reported date that indicated finalizing and concluding the assurance statement. The two instances show more attention should be paid to dates in assurance provision.

It should be noted that assurance of sustainability reports is a practice that is designed to add credibility to disclosed performance information. The existence of apparent easily rectifiable errors and inconsistencies or both only minimizes its potential and harms the basic idea that supports the

practice. While sustainability assurance is already a complex practice, issues like date of assurance statements appear to be quite straightforward and should not be allowed to serve as a reason to attract more criticisms in an area that is already being criticized (Gray, 2002; 2008).

The ISAE3000 also recommends for assurance providers to state their location for assuming responsibility of the engagement and for users to know the place where the assurance report was completed, especially for large service firms who have offices across many cities. Result shows that a quarter (25%) of assurance statements managed to exclude the location of the assurance engagement, 16 non-accountants, 2 stakeholders (18). Also, most assurance providers with locations are only willing to reveal the city where their offices are located, with 47 of 55 (85%) assurance providers doing so: 32 and 15 for accountants and non-accountants respectively. The other 9 assurance statements with locations are accompanied by specific addresses of the assurance providers, 8 happened to be non-accountants and the last is Ernst & Young LLP assurance statement of Essar Group Sustainability Report 2010, which appeared to be the only assured statement by an accountant with a full location and address.

4.4.2 Guidelines used to Govern the Assurance Procedures

The emergence of sustainability reporting assurance has resulted in the production of some guidelines and standards to assist assurance providers in adequately discharging assurance services. It is the responsibility of assurance providers to implement and disclose the appropriate guidelines

used in undertaking every assurance engagement, which can be shaped by the scope of the assurance procedure (Deegan et. al, 2006), in order to ensure claims are reasonably investigated. The use of standards also assists users in understanding the various types of standards in assurance, thus, users are in a position to decide for themselves if the standards are appropriate for the assured subject matter (FEE, 2002).

The sample shows 53 (73%) assurance engagements were executed in line with the renowned assurance guidelines - ISAE3000 and/or AA1000AS, 3 additional assurance procedures utilised assurance guidelines outside ISAE3000 and AA1000AS, thereby making it 77% (ETQ 2.4). This is in contrast with the study of O' Dwyer and Owen (2005) that investigated assurance statements of 41 companies shortlisted for the 2002 AACA UK and Environmental Sustainability Reporting Awards. They noticed that only 29% of the sample companies made specific reference to assurance guidelines. Another study by Deegan et. al. (2006) examined 100 assurance statements using the database of corporate register and GRI in 2003, they also observed that only a minority of companies adhere to assurance guidelines with only 40% of the sample. However, the position in this study is similar to the studies by O' Dwyer and Owen (2007) and Manetti and Toccafondi (2012) who found that higher number of assurance engagements have complied with guidelines at 79% and 90% respectively. This can be perceived that more assurance providers are realizing the advantage of using standards in assurance engagements.

In terms of assurance provider category, all 33 accountants, 2 stakeholder panels and 20 non-accountants have complied with at least one assurance

guideline (ETQ 2.4). Interestingly, all the 17 assurance statements that decided not to adopt any known guideline in addition to the 3 procedures that adopted guidelines outside ISAE3000 and AA1000AS fell under the non-accountant assurance provider category. The ISAE3000 and AA1000AS guidelines were primarily considered in this study to ensure adequate level of comparison with previous studies (O’ Dwyer and Owen, 2005; 2007; Deegan et. al, 2006; Manetti and Becatti, 2009; Blanco and Souto, 2009) was established. Table 4.9 below shows the common standards adopted by assurance providers when assuring sustainability reports based on the sample data.

Table 4.9 Assurance guidelines (ETQ 2.4)

| Guidelines | Frequency (%) |
|---------------------|---------------|
| ISAE3000 | 26 (36%) |
| AA1000AS | 15 (21%) |
| ISAE3000 & AA1000AS | 12 (16%) |
| No guideline | 20 (27%) |
| Total | 73 |

The AccountAbility guideline, AA1000 Assurance Standard (2008) and the International Standard on Assurance Engagements 3000 (ISAE3000, 2004) are the two common guidelines used in sustainability reporting assurance and are equally considered here as seen in Table 4.9 above. The ISAE3000 and AA1000AS guidelines were solely implemented on 26 and 15 occasions respectively. Some assurance providers decided to use both guidelines as reflected in up to 12 instances, the use of more than one guideline in sustainability assurance is due to the recommendation and focus of key elements in each guideline. For instance, the AA1000AS is particularly concerned about issues relating to stakeholder materiality, completeness

and responsiveness. Therefore, assurance providers adopting the AA1000AS are required to provide more information about stakeholder materiality, completeness and responsiveness.

The ISAE3000 standard was used in 38 assurance engagements, making it the most used guideline in the sample, including 5 procedures by non-accountants that solely considered the guideline. 100% (33) of the accountant assurance providers complied with ISAE3000 in their assurance engagements. This is consistent with the observation by Deegan et. al. (2006) and Manetti and Toccafondi (2012) who suggested that accountant assurance providers are more likely to adopt the ISAE3000 standard when assuring sustainability reports. This is probably because the International Federation of Accountants (IFAC) is responsible for developing and improving of the ISAE3000 guideline.

The AA1000AS was adopted in a total of 27 assurance engagements including 13 non-accountants and 2 stakeholder panel procedures. These 15 statements are the procedures that solely used the AA1000AS guideline in the sample. The final 12 assurance statements that complied with the AA1000AS guideline also complied with ISAE3000, all by accountants. Not a single assurance by accountants used the AA1000AS guideline alone. This indicates the lack of willingness for accountants to adopt the AA1000AS only in their assurance engagements as also observed by Manetti and Toccafondi (2012).

Although the AA1000AS and ISAE3000 are two separate guidelines, they share some similar key elements like level of assurance. Both guidelines

require assurance providers to indicate the level of assurance being pursued; the AA1000AS requires a 'statement of level of assurance' from assurance providers (AA1000AS, 2008). The assurance level describes the extent at which an assured subject matter has been investigated. The guidelines have two levels of assurance each; the AA1000AS classified its levels as high and moderate while that of ISAE3000 are reasonable and limited. Blanco and Souto (2009) considered high and reasonable assurance as terminologies with equivalent meaning; this also applies to moderate and limited level of assurance. The two guidelines agree that high or reasonable assurance require a higher extent of investigation and evidence gathering processes than moderate and limited assurance. An assurance engagement of high or reasonable level aims to reduce the assurance procedure risk to a significantly low level, whereas the limited or moderate level engagement reduces risk to the circumstances of the assurance procedure (ISAE3000, 2004). Table 4.10 below shows the assurance level from the sample study.

Table 4.10 Level of Assurance (ETQ 2.5)

| Assurance level | Accountants | Non-accountants | Stakeholders | Total |
|--------------------|-------------|-----------------|--------------|-------|
| Limited / Moderate | 27 | 17 | | 44 |
| Reasonable / High | | 1 | | 1 |
| Mixed | 6 | 2 | | 8 |
| No level | | 18 | 2 | 20 |
| Total | 33 | 38 | 2 | 73 |

Almost all (27) the accountant assurance providers conformed to a limited level of assurance and not a single accountant assured a sustainability report without stating an assurance level, as indicated in Table 4.10. The non-accountants are almost equally distributed with 17 and 18 having

opted for limited and no assurance level respectively (ETQ 2.5). 14 of the 18 non-accountant assurance statements with no assurance level are the same ones that decided not to adopt any assurance guideline as shown in Table 4.9 above.

Table 4.10 also shows only one assurance provider prompted for a reasonable level of assurance, which happened to be a non-accountant: LRQA business assurance in their assurance statement of BT Group Sustainability Report 2010. An interesting observation indicated that 3 assurance statements that were produced by non-accountants prompted for limited level of assurance but did not appear to employ any guideline in the assurance engagements. In particular, LRQA assurance statement of International Power Corporate Responsibility Report 2010 in 'Our Approach' section of the assurance statement stated that 'obtaining sufficient evidence that we consider necessary for us, to give a moderate¹ level of assurance'. The footnote on the same page stated that 'definition of 'moderate level' of assurance is from the AA1000 Assurance Standard 2008'. This was the only reference made to AA1000AS in the whole of the assurance statement.

The level of assurance provided should be supported by the chosen assurance guideline since both ISAE3000 (2004) and AA1000AS (2008) have stated for an assurance level to be presented in assurance statements, but this did not appear to occur in all cases. Assurance providers made an effort to select an assurance level to justify how effective the assurance engagements were discharged, which supports the main features of sustainability assurance.

4.5 Main Features of Assurance Statements

This section deals with the final supporting research question - what form of information is provided about the main features of assurance statements? This question also deals with statement about respective responsibilities of assurance providers and reporting companies, scope and objectives of the assurance engagements, type of assurance work carried out, nature of stakeholder inclusion in the assurance processes, issues of stakeholder materiality, completeness and responsiveness and nature of conclusion/opinion, observation and recommendation provided by the assurance providers. Elements in the section are discussed with reference to previous elements identified in the preceding supporting research questions. Independence of assurance provider is discussed as the first element of the main features of assurance statements in this sample

4.5.1 Independence of Assurance Providers

A key element for not just assuring sustainability reports, but also any form of audit engagement is to declare the unequivocal independence of the party responsible for carrying out the audit exercise. Adams and Evans (2004), Swift and Dando (2002) argued about the importance of assurance provider's independence to the reporting company and stated that lack of independence successfully creates and increases a 'social audit expectation gap'. This is why the AA1000AS requires assurance providers to make a statement of independence and impartiality in all assurance statements (AA1000AS, 2008). Given that there are various ways to express independence, this study first of all considers the presence of any

explicit comment about independence in the sample assurance statements.

Most of the assurance statements (82%) were accompanied with at least a comment about independence of assurance providers, where up to 13 assurance statements had no information about independence of the assurance provider (ETQ 4.1.1). However, amongst the 60 assurance statements with information about assurance provider's independence, 2 statements by Corporate Citizenship provided only a web link³⁴ to view their statement of independence - Pearson Plc. Our impact on society report 2010 and Whitbread Corporate Responsibility Report 2010. Hence 58 statements are considered in this study to have made comments relating to independence of assurance provider simply because exact comments are not present in any of the two statements. The assurance procedures of these two companies also did not utilise any assurance guideline. Amongst the 13 reports without statement of independence, 2 were stakeholder panels while the others produced by non-accountants except PwC LLP assurance report of International Personal Finance Responsible Lending, Business and Society Report 2010. All stakeholder panel assurance (4) failed to provide information about independence of the representative stakeholder members in the panel.

Corporate Citizenship is the single assurance provider that is responsible for the most assurance statements without comment on independence, this occurred in 3 cases. It is also noted that companies with more than

³⁴ The link provides general information about the assurance provided by Corporate Citizenship not explicit information about how they were independent when carrying out assurance.

one assurance statements have contributed to the number of assurance reports without statements of independence. Premier Oil is the only company with more than one assurance statement whose assurance providers have commented on their independence in all statements. Only one of three Land Securities Group assurance statements contained statement of independence, while all assurance statements, two each, for Balfour Beatty and Lloyds Banking Group had no information regarding independence of assurance provider.

Most of the assurance procedures without statement of independence did not adopt an assurance guideline. Only 4 statements used renowned guidelines but failed to offer statement of independence, they are the two stakeholder panel statements that used AA1000AS. One produced by a non-accountant - Oceanic certification verification summary of Barratt Development Sustainability Report 2010, they used the AA1000AS. The other is the only assurance statement by an accountant without any comment about independence - PwC LLP assurance report of International Personal Finance plc. Responsible Lending, Business and Society Report 2010, they used ISAE3000.

Now that statements with comments about independence are identified, it seems reasonable to investigate what exactly the assurance providers have disclosed about their independence that can convince users they actually are independent from the reporting company. This became more important because in the course of examining the assurance statements, it became obvious that assurance providers are utilising various approaches in demonstrating their independence to users. These approaches as

specified by ISAE3000 are intended to eliminate or reduce threats to independence by ensuring that independence of mind and appearance are not compromised (ISAE3000, 2004). Assurance providers should therefore disclose their independence while discharging assurance services, but the available manner for achieving independence in any given assurance engagement is decided by the assurance provider.

The first issue of independence that was considered is based on the basic concept of audit independence, which studied whether the assurance providers clearly indicated that they were not in any way involved in the production or preparation of any material used in the report. From the 58 assurance statements with comments about independence of assurance providers, only 24 confirmed that the assurance provider is not involved in preparing any material used in the accompanying sustainability report; non-accountants assured 16 statements while accountants were responsible for only 8 statements (ETQ 4.1.2).

32 separate statements indicated that assurance providers have complied with a specific code of ethics requirements for auditors' independence (ETQ 4.1.3), 27 of them were accountants, the ethics code they complied with are presented as follows:

- 2 complied with independence requirements of the Auditing Practice Board (APB) ethical standards for auditors;
- 8 complied with independence and competency requirements in the Institute of Chartered Accountants in England and Wales (ICAEW) code of ethics;

- 2 complied with the International Ethics Standards Board for Accountants (IESBA) code of ethics for professional accountants; and
- 13 complied with requirements of the International federation of Accountants (IFAC) code of ethics for professional accountants.

The above amounts to 25, the other 2 statements by accountants are; Ernst & Young LLP assurance report of Xstrata plc. Sustainability Report 2010, they stated that 'all professional personnel involved in this engagement have met the independence requirements of Australian or International professional ethical requirement'; and PwC LLP assurance statement of RSA Insurance Group Corporate Responsibility Report 2010 that stated 'we are independent as defined in the AA1000 Assurance Standard (2008)'. Another independence ethics code that appeared in the sample but not yet mentioned is the Australian Accounting Professional and Ethical Standards Board (AAPESB), this was used together with the International Ethics Standards Board for Accountants (IESBA) as stated above in KPMG assurance report of BHP Sustainability Report 2011.

The high number of accountant assurance providers that adopted independent ethical codes ensured that all accountants in the sample either stated that they were not involved in producing any sustainability reporting material or/and complied with an independence ethics code. Except for the only assurance statement by an accountant without any information about independence - PwC LLP assurance report of International Personal Finance plc. Responsible Lending, Business and Society Report 2010.

A single non-accountant assurance provider - Bureau Veritas, assured all the 5 remaining assurances statements that employed an independence code of ethics. They complied with a code of ethics without providing further information about the code or even the name of the code. For instance, in Bureau Veritas assurance of Carillion Plc. Sustainability report 2010, they stated in the 'statement of independence' that 'Bureau Veritas implements a Code of Ethics across its business which ensures that all our staff maintain high standards in their business conduct'. Similar wordings featured in all other 4 statements.

Some assurance providers disclosed other engagements they have had with the reporting company in the endeavor to confirm their sincere effort of achieving independence in the face of users. It can be argued that assurance providers are not undermining their independence, particularly in terms of not playing a role in producing any material used in a report by stating other engagements they have had with the reporting company. It can be viewed that they are simply being transparent, given the numerous activities companies have to contend with and the number of services professional firms (accountants and non-accountants) are providing. It seems realistic that many companies require the services of these professional firms on issues outside sustainability reporting assurance in order to achieve their operating objectives. However, caution must be taken in providing services to companies because current sustainability issues can be reflected in many forms of corporate activity.

From the sample, 14 (19%) assurance providers have identified other engagements they have had with the reporting company, 13 of which are

non-accountants (ETQ 4.1.4). ERM limited independent assurance report of Cairn Energy Plc. Corporate Responsibility Report 2010 stated that 'During 2010, ERM has worked with Cairn on other consulting engagements, not related to the production of the CR report nor the scope of the assurance engagement. ERM operates on strict conflict checks'. The only accountant assurance procedure to indicate other engagements of the assurance provider with the reporting company is Ernst & Young LLP assurance report of Xstrata Plc. Sustainability Report 2010.

The final part of independence considers whether assurance providers have stated that they have confirmed their independence to the reporting company. This aspect was noticed during the review of assurance statements because it was initially perceived that assurance providers would confirm their independence prior to accepting their assurance engagements. In the case of ERM limited independent assurance report for Tesco Plc. Corporate Responsibility Report 2011, the main information about ERM's independence was that 'we have confirmed our independence to Tesco for delivering our assurance'. Only 13 more assurance statements from the sample contained information that relates to confirming independence to reporting company was observed, produced by 6 non-accountants and 7 accountants (ETQ 4.1.5).

The independence of assurance providers remains one of the key elements in every audit engagement that readers depend upon, thus it can be perceived as a legitimate element to be included in assurance procedures. So far, findings indicate that majority of assurance providers at 82% provide information about their independence in assurance engagements,

but, much clarity is required about assurance providers approach to independence in assurance. Independence of assurance providers demonstrates the role of a third party in independently reviewing and reaching a conclusion regarding sustainability performance of a company. Achieving this will be impossible without initially identifying and deciding on aspects of sustainability performance that were assured, which form part of scope of assurance procedures.

4.5.2 Scope of Assurance Engagements

Assurance procedures entail reviewing aspects of corporate activity to confirm the accuracy and reliability of disclosed information. This procedure is confusing without specifying particular aspects that were investigated. The scope of an assurance engagement is decided by the reporting company and the assurance provider, but should be included in the final assurance statement because the issues included as scope of an assurance engagement needs to be material to intended users of the assurance report (AA1000AS, 2008). The scope of an assurance exercise is predicated on the scope of a company's report; therefore, it remains the responsibility of both reporting company and assurance provider to inform users about the scope of the statement (Adams and Evans, 2004). As assurance providers are responsible for the assurance statement, it becomes their immediate responsibility to ensure that users are being informed about the scope of assurance statement.

Due to the range of issues that could be assured, a classification was made based on scope provided by the assurance providers in this sample while

considering previous approaches in studying scope of assurance engagements. O’ Dwyer and Owen (2007) classified reports as environmental, social and sustainability, but investigated only description of scope in their analysis. AA1000AS (2008) stated that ‘the assurance provider shall identify and agree with the reporting company on all disclosure to be covered by the assurance engagement’. This can point to a potential disparity between type of issues reported and type of issues assured. As a result, the broad classifications of assurance scope in this study is: environmental- this concerns assured issues relating to the environment (GhG emissions, pollution, waste, water and so on), social- assured social issues (health, safety, community investment and so on), and data in report- content of the whole or part of the report (this situation is where the assurance providers focus on information provided in the whole or part of the report (data or statements) to define their scope, which can be a combination of social and environmental issues). The use of any particular scope is non-exclusive; Table 4.11 presents the scope classification.

Table 4.11 Assurance engagement scope (ETQ 4.2)

| Scope | Accountants | Non-accountants | Stakeholders | Total |
|-----------------|-------------|-----------------|--------------|-------|
| Environment | 22 | 17 | | 39 |
| Social | 22 | 11 | | 33 |
| Data in report | 16 | 17 | 2 | 45 |
| GRI application | 9 | 11 | | 20 |
| AA1000APS | 7 | 9 | | 16 |

All the assurance statements in the sample were presented with a scope of the engagement; this shows the importance of scope to the exercise.

However, the assurance statements reveal various aspects of scope as seen in Table 4.11 above, to indicate not the entire reported information was assured. Scope of assurance procedures from the sample covered environmental issues with 53%, distributed between 22 accountants and 17 non-accountants (ETQ 4.2.1). Social issues were considered in 33 procedures (ETQ 4.2.2), only 3 assurance providers failed to include environmental issues along with social issues within their assurance scope. While only 9 assurance providers failed to include social issues along with environmental issues within their assurance scope. Amongst 22 accountant assurance providers that assured environmental issues, only 2 failed to include social aspects of performance.

Instead of specifying either environmental and/or social issues as scope, some assurance providers consider all reported information in a sustainability report (depicted as data in report); this could include social and environmental aspects. This occurred in 45 (62%) instances, where assurance providers did not reveal they have specifically assured either social and/or environmental aspects in up to 30 cases that constitute 9 accountants, 19 non-accountants and 2 stakeholders. They were 11 assurance procedures that included all environmental, social and data in report as scope of engagement by 5 accountants and 6 non-accountants. 2 statements reviewed only social issues and data in report, this occurred in assurance statements by a single accountant and non-accountant each. Another 2 providers' assured only environmental issues and data in report; an accountant and a non-accountant were also responsible for one statement each. Only one assurance procedure in the sample managed to design their scope of assurance engagement outside specific issues

relating to social, environmental and/or data in report - LRQA's assurance statement of BT Group Plc. Sustainability Report 2010.

Table 4.11 above also shows that assurance providers can structure scope of assurance engagements to areas different from social, environmental or data in report. These aspects include the accuracy of reporting companies self-declared GRI application level and the extent to which companies have aligned the content of their reports with the AA1000 Accountability Standard (AA1000APS, 2008). The GRI application level was assured in a total of 20 cases, 9 accountants and 11 non-accountants (ETQ 4.2.4). While the extent to which companies comply with the AA1000APS was examined in 16 engagements, 7 accountants and 9 non-accountants (ETQ 4.2.5). In 9 different engagements, 4 accountants and 5 non-accountants considered both GRI application level and AA1000APS. Only one assurance statement included AA1000AS and GRI application level as well as social, environmental and data in report as scope of engagement – DNV assurance statement of CRH Plc. Corporate Social Responsibility Report 2010. Where only one procedure excluded social, environmental and data in report as scope but decided to examine adherence to AA1000APS and validation of GRI application level, this occurred in the case of LRQA's assurance statement of BT Group Plc. Sustainability Report 2010. This however represents the only assurance procedure in the sample to opt for a reasonable level of assurance engagement.

The tendency for some assurance providers to use the term 'selected' when defining assurance scope was noticed in some assurance statements (ETQ 4.2.6). This is assumed, using the literal meaning of selected, that it

indicates chosen aspects of reported information were considered in assurance procedures. The ISAE3000 and AA1000AS have not provided any clarification relating to the use of 'selected' in defining scope of assurance engagements, but they were present in assurance statements. 23 assurance statements from the sample made explicit reference to the term 'selected' in defining scope of assurance engagements, 18 of which were produced by accountants and 5 by non-accountants.

An additional 6 statements made reference to 'management instructions' in describing scope of assurance engagements. For instance, Ernst & Young LLP assurance statement of BP Plc. Sustainability Review 2010 stated 'Our responsibility, in accordance with BP management's instructions, is to carry out a limited assurance engagement on the report'. Similar wordings that included 'management instructions' occurred in 4 other assurance statements, all assured by Ernst & Young LLP. Citrus Partners LP assurance statement of Petropavlovsk Group Sustainability Report 2010 is the only assurance statement by a non-accountant to make reference to management instructions by stating 'Our responsibility, in accordance with instructions from the Group's management, is to undertake a limited review on the report'.

The scope of assurance engagement enables users to understand the particular aspects of sustainability issues being assured, where reporting companies appear to be involved in making the decision. Steps undertaken to investigate and reach conclusions about these topics are not provided within the scope of an assurance exercise. These aspects of assurance

engagements are usually outlined in the work undertaken by assurance providers to reach their professional conclusions.

4.5.3 Work undertaken by Assurance Providers

There are various approaches to obtaining evidence for sustainability reporting assurance procedures because of the general and myriad nature of sustainability issues. The number of issues that are considered as sustainability issues makes the procedure more complex, given that information about sustainability can be disclosed in a combination of both qualitative and quantitative forms (Manetti and Toccafondi, 2012). This puts assurance providers in a position where they must take extra care when discharging assurance engagements; at the same time not confuse users about details of the procedure when preparing the statement (Adams and Evans, 2004). Assurance providers should ensure that there is congruence between the scope of an assurance engagement and assurance work undertaken (Deegan et. al, 2006). The recognised standards, ISAE3000 (2005) and AA1000AS (2008) require assurance providers to disclose information about the tasks and activities they have carried out in assurance processes. Both standards also stress the need for assurance providers to express professional skepticism when assuring sustainability reports, to improve validity and reliability of evidence obtained (ISAE3000, 2004; AA1000AS, 2008).

The first element used to investigate work undertaken by assurance provider is contact with management (ETQ 4.3.1). From the sample, interview with management shows to be the most common manner of

contact with management. Having being employed in up to 50 (68%) assurance procedures, 26 of which were performed by non-accountants and 23 by accountants, whereas 9 other statements by accountants made inquiry from management. For example, PwC LLP independent assurance report of Rio Tinto's Sustainable Development Review 2010 stated that 'Making enquires to relevant management of Rio Tinto' as one of the performed procedures. This means that only one (out of 33) assurance statement by accountants failed to at least interview management or make an enquiry to management about respective companies sustainability reported issues during the assurance engagement – Deloitte LLP independent assurance report of Tullow Plc. Corporate Responsibility Report 2010. The assurance statement possessed the shortest information about work undertaking by assurance provides in the study sample with just two lines.

Another observable mode of contact with management is through meetings, this occurred in only 6 assurance procedures that were presided by 5 non-accountants and 1 stakeholder panel. 3 of them used only meetings as a mode of contact with management, 1 assurance engagement adopted meetings, telephone conversations and email correspondence with the reporting company - SKM Enviros assurance statement of Amec Plc. Sustainability Report 2010. The final 2 are the only assurance engagements that held interviews, meetings, and telephone conversations. They are DNV assurance statement of CRH Plc. Corporate Social Responsibility Report 2010 and Corporate Citizenship assurance statement of SABMiller Plc. Sustainable Development Report 2010. Apart from the 3 above mentioned assurance procedures that held telephone

conversations, 5 more engagements used the approach to communicate with management, produced by 3 non-accountants and 2 accountants where all of them also held interviews. This brings the total number of procedures with telephone conversations to 8.

Contact with management is common as 86% of the sample held at least either interviews, meetings, telephone conversations, email correspondence or enquiries to management. Only 10 assurance statements in the sample failed to use any of the modes of contact with management, 9 of which were by non-accountants and 1 by an accountant - Deloitte LLP independent assurance report of Tullow Plc. Corporate Responsibility Report 2010. The sample indicates that assurance providers tend to elicit further information from management about their sustainability issues. Both accountants and non-accountants use interviews but accountants in particular are more inclined to interview management, also making enquiries to management appears to be an exclusive practice by accountants. Non-accountants on the other hand are not only limited to interviews as they are more likely to include other forms of contacting management in form of meetings, telephone conversations and emails in an endeavor to obtain evidence.

Another element used for investigating assurance work undertaken in this study is the review of corporate level documents. This was carried out in 47 (64%) occasions, 27 and 20 by accountants and non-accountants respectively (ETQ 4.3.2). Only 6 of 33 statements by accountants disregarded reviewing corporate documents in their assurance processes. Non-accountant assurance providers were less inclined to review

corporate documents with 47% (18 of 38) failing to do so, even though Bureau Veritas ensured they reviewed corporate documents in all (5) the assurance procedures they conducted. Reviewing supporting evidence from the sample shows higher consideration from non-accountants with 24 statements while accountants had 19 statements (ETQ 4.3.3). One stakeholder panel procedure also performed this task, taking the total of assurance procedures that have reviewed supporting documentation to 44 (60% of the sample). The sample shows that 58 (80%) assurance procedures have at least reviewed corporate documents or supporting evidence, therefore only 15 (20%) procedures failed to carry out at least one of the two tasks by 5 accountants, 9 non-accountants and 1 stakeholder panel. Also, 33 (45%) assurance procedures have studied corporate documents and examined supporting evidence, which constitutes 18 accountants and 15 non-accountants.

Investigating the process that reporting companies obtain sustainability data is depicted as how assurance providers review collection, collation and aggregation of data (ETQ 4.3.4). This process was assessed by assurance providers in 51 (70%) instances consisting of 23 non-accountants, one stakeholder – the stakeholder panel assurance statement of Balfour Beatty Sustainable Report 2010, and 27 accountants including all statements by KPMG LLP and Deloitte LLP. Accountants were responsible for only 6 statements that omitted investigating data collection, collation and aggregation systems, while non-accountants and a stakeholder panel produced 15 and 1 statements respectively. Again, as observed in the previous element (review of corporate documents), more

accountant assurance providers investigated sustainability data collection processes by companies than their non-accountant counterparts.

Companies systems of disclosing sustainability information were reviewed by 49 (67%) assurance providers; 27 accountants and 22 non-accountants as indicated in Table 4.12 below (ETQ 4.3.5). The figure appears to be almost similar to the number of assurance procedures that reviewed corporate documents and data collection systems, especially in terms of accounts that have exactly 27 respondents for all three elements. However, only the figures are indistinguishable because the 27 assurance statements by accountants that reviewed data collection systems are not exactly the same 27 that reviewed reporting systems or corporate documents, and the same applies to non-accountants. But KPMG LLP is the only assurance provider in the sample that ensured all its assurance procedures have included a review of corporate documents, data collection systems and reporting systems.

Only 12 assurance procedures failed to review any of data collection or reporting systems; 10 non-accountants, 1 stakeholder – the stakeholder panel external review committee statement of Royal Dutch Shell Plc. Sustainability Report 2010, and 1 accountant – PwC LLP assurance report of HSBC Holdings Plc. Sustainability Report 2010. While only 7 assurance procedures in the sample failed to carry out any review in relation to corporate documents, data collection and reporting systems; this occurred mainly in procedures that adopted a stakeholder panel approach (all four of them) and for companies with more than one assurance statement – Land and Securities Group, Lloyds Banking Group and Balfour Beatty.

Table 4.12 Assurance work undertaken (ETQ 4.3)

| Aspects of assurance work | Accountants | Non-accountants | Stakeholders | Total (% of sample) |
|--|-------------|-----------------|--------------|---------------------|
| Review of corporate documents | 27 | 20 | | 47 |
| Review of data collection | 27 | 23 | 1 | 51 |
| Review of reporting systems | 27 | 22 | | 49 |
| Review of measurement procedures and quality control systems | 21 | 13 | | 34 |
| Test of evidence | 27 | 23 | | 50 |
| Analytical procedures | 13 | | | 13 |
| Review of risk assessment | 6 | 2 | | 8 |
| Site visits | 11 | 16 | | 27 |

Table 4.12 shows that quality control systems and procedures that assists reporting companies in accurate measurements and calculations of sustainability data were assessed in 34 (47%) assurance engagements, mostly by accountants with 21 and non-accountants with 13 statements (ETQ 4.3.6). Accountants reviewed the majority of quality control systems in the sample with PwC LLP ensuring all their assurance involved the process (12).

Test of evidence was carried out on 50 (69%) occasions with PwC LLP (12), Bureau Veritas (5) and ERM Ltd (5) being the assurance providers to have tested evidence in all the procedures they have handled (research question 4.3.8). Not a single non-accountant assurance provider included analytical procedures in their assurance engagements with only 13

accountants considering the task. Analytical procedure is however more in the domain of conventional financial audit, not a surprise only accountants considered the practice. Risks relating to sustainability performance of companies were examined in only 8 instances - 2 non-accountants and 6 accountants, including 4 by KPMG LLP (research question 4.3.7). Up to 54 (74%) assurance engagements in the sample failed to undertake risk assessments and analytical procedures, this constitutes most non-accountants in the sample (36 of 38), all stakeholder panels (2) and a considerable number of accountants (16 of 33). Internal audit was given attention to in only 9 procedures that includes 2 accountants and 7 non-accountants.

Some assurance procedures extended the exercise to visiting sites of reporting companies to gain practical evidence on companies' implementation of sustainability practices in work places and lower levels. Site visits were carried out on 27 occasions with non-accountants having most (ETQ 4.3.10). Visiting sites enable assurance providers have access to other parties outside corporate management. The next section deals with the supporting research question on stakeholder issues, which concentrates on stakeholder consideration and inclusion in the assurance procedures.

4.6 Stakeholder issues in Assurance Engagements

One of the main reasons why sustainability issues are popular around the globe is the associated stakeholder benefit of attempting to provide a better society and environment for all. Assurance of sustainability reports

is just one-way of attempting to ensure this goal is being achieved. While the practice is not well developed, certain considerable progress has been made in understanding the nature of stakeholder issues in assurance, with a host of scholars calling for more stakeholders to be included in assurance engagements (Adams and Evans, 2004; O' Dwyer and Owen, 2005; 2007; Edgley et. al, 2010; Simnett et, al. 2009; Manetti and Toccafondi, 2012; Jones and Iwasaki, 2011; O' Dwyer et. al, 2011).

The extent and nature of stakeholder involvement in sustainability reporting assurance is investigated from the sample. 10 assurance providers made an effort to interview stakeholders as an approach of obtaining evidence to verify claims made by reporting companies (ETQ 4.4.1). 7 accountants, 2 non-accountants and 1 stakeholder panel as indicated in Table 4.13 below. There were 3 assurance procedures that included participation of assurance providers in an independently organized stakeholder meeting: two by Ernst and Young LLP in their Independent assurance statement of BP Plc. Sustainability Review 2010 and in the Independent assurance statement of British American Tobacco Plc. Sustainability Report 2010. The third is Corporate Citizenship assurance statement and commentary of Provident Financial Group Corporate Responsibility Report 2010.

Another two assurance providers observed communications in stakeholder meetings to verify statements made in reports: Acona partners verification statement of Home Retail Group Plc. Corporate Responsibility Report 2011 (ETQ 4.4.2). The other assurance provider did not only observe stakeholder communications, but also reviewed details

of stakeholder forums and is the only assurance procedure in the sample that discharged a reasonable level of assurance: LRQA assurance statement of BT Group Plc. sustainability report 2011. Another assurance provider also participated in stakeholder meeting and reviewed minutes of stakeholder meetings (ETQ 4.4.3) - Ernst and Young LLP Independent assurance statement of British American Tobacco Plc. Sustainability Report 2010. Only 2 more engagements reviewed details of stakeholder meetings, they are: Deloitte LLP assurance statements of Centrica Plc. Corporate Responsibility Report 2010 and Citrus Partners LLP assurance statement of Petropavlovsk Sustainability Report 2010. This brings the total of assurance procedures that have reviewed stakeholder meetings to 4 as shown in Table 4.13 below.

Table 4.13 Stakeholders inclusion in assurance (ETQ 4.4)

| Form of stakeholder inclusion | Accountants | Non-accountants | Stakeholders | Total |
|--|-------------|-----------------|--------------|-------|
| Interview with stakeholders | 7 | 2 | 1 | 10 |
| Review details of stakeholder meetings | 2 | 2 | | 4 |
| External source of evidence - media | 9 | 7 | | 16 |
| External source of evidence - peers | 7 | 8 | | 15 |

Some assurance providers identified the stakeholder groups they included in their assurance engagements, this occurred in 13 occasions: 2 stakeholder panels, 4 non-accountants and 7 accountants (ETQ 4.4.5). As

expected, all stakeholder panel statements were accompanied with a list of all the stakeholders that participated in the process. The stakeholder panel members of National Grid Plc. Social Purpose Report 2011 by Corporate Citizenship is attached in Appendix VI.

Employees of reporting companies were included in some assurance engagements, this occurred in 9 of the 13 relevant assurance procedures. However, the assurance statements did not provide a distinction between senior and lower level employees as well as the capacity of their involvement.

Other groups of stakeholders that appeared in the sample were customers, NGO's and community in general. Where KPMG's independent assurance report of Diageo Plc. Sustainability and Responsibility Report 2011 identified community as the stakeholders they have interviewed in their assurance process. Only one assurance engagement in the sample obtained the perspective of employees, customers and community – Ernst & Young LLP independent assurance statement of Essar Energy Plc. Sustainability Report 2010.

None of the assurance providers considered a questionnaire or survey of stakeholders to gain their perspectives during the assurance engagements (ETQ 4.4.6). While stakeholder questionnaire or survey was not undertaken, some assurance providers used the perspectives of external sources. The perspective of an external party about sustainability issues relevant to particular companies due to industry participation for instance, could assist assurance providers in building a picture of reporting

companies sustainability performance, which can be used to assist assurance engagements. From a legitimacy perspective the view of reasonable external sources can be perceived as that of the relevant publics, which might be a valuable tool for assurance providers in the assurance process. The studies by Brown and Deegan (1998) and Ader (1995) have argued that external parties, particularly the media, are influential in not only shaping societal concerns but also raising key sustainability issues and concerns facing societies.

Assurance providers checked media sources in the process of assuring 16 assurance engagements: 9 accountants and 7 non-accountants (ETQ 4.4.4). Among these, only 5 procedures used the media reports as their only source of external evidence including Ernst & Young LLP independent assurance statement of Aviva Group Corporate Responsibility Report 2010, that stated they 'reviewed a selection of external media reports'. The other 11 procedures used the media and other sources of gathering external evidence, including reviews of peer reports and Internet searches.

Peer reports are used as a benchmarking tool to assist in understanding the sustainability reporting performance of other similar companies (ETQ 4.4.4). This enables assurance providers to compare sustainability performance and approach of companies. The prevalence of internet usage around the world today has led to almost all forms of human activity being available online, this include information about sustainability issues of companies. Thus, Tagesson et. al. (2009), Line et. al. (2002), Adams and Frost (2006) as well as the findings observed in the first few sections of this chapter have all indicated that the internet is the most common means of

obtaining sustainability information from around the world by numerous practitioners, researchers, professionals and so on.

Review of peer reports was considered in 15 assurance procedures by 7 accountants and 8 non-accountants, while internet searches was conducted in only 4 instances by 3 non-accountants and 1 accountant – KPMG LLP independent assurance report of Diageo Plc. Sustainability and Responsibility Report 2011. This is the only assurance statement by accountants that have searched the media, Internet and peer reports in the process of assurance. The only other assurance statement to specify that they searched all three sources of external evidence as identified in this study was produced by a non-accountant – Bureau Veritas external assurance of AstraZeneca Plc. Corporate Responsibility Report 2010.

While external sources are important in shaping the external perception of companies' activities, internal policies have to be in place for building a reliable outlook of companies performances. Thus, stakeholder policies should be implemented within companies for external stakeholders to acknowledge efforts by respective companies. Assurance providers reviewed companies' performance in relation to their stakeholder engagement practices on 28 occasions: 13 accountants and 15 non-accountants, as shown in Table 4.14 below (ETQ 4.4.7). Stakeholder engagement is considered to be vital in dealing with stakeholders and sustainability issues, where virtually all companies stated their commitment to engaging with stakeholders when reporting, but fewer clearly assured this claim.

Most of the assurance procedures that reviewed stakeholder engagements of reporting companies also adopted the AA1000AS as a guideline for their assurance procedures, with 24 of 28 doing so. Those that failed to do so are; 3 statements produced by different non-accountants and 1 by Ernst & Young LLP in their assurance engagement of Xstrata Plc. Sustainability Report 2010, this was also the only assurance procedure by accountants that failed to make any specific reference to a code of ethics for assurance provider's independence. From another perspective, only 3 of 27 assurance engagements that used the AA1000AS failed to review stakeholder engagement practices of reporting companies, 2 stakeholder panels and a non-accountant – Virtuous Circle verification statement of MAN Group Sustainability Report 2011.

Other issues relating to stakeholders are those of materiality, inclusivity and responsiveness as explicitly recommended by AA1000 Accountability Principles Standard (AA1000APS, 2008) and AA1000 Assurance Standard (AA1000AS, 2008). While the elements in Table 4.12, 4.13 and 4.14 as well as other aspects of assurance work undertaken (all identified above) can be used to review stakeholder materiality, inclusivity and responsiveness, the AA1000AS specifically require assurance providers to make explicit reference to the principles in assurance statements. This assists in enhancing the credibility of corporate assertions made in reports about stakeholder materiality, inclusivity and responsiveness, particularly in the face of users.

Assurance providers evaluated stakeholder materiality on 28 occasions, divided equally between 14 accountants and non-accountants each (ETQ

4.4.8). Only one assurance procedure by non-accountants reviewed stakeholder engagement processes but failed to consider stakeholder materiality – Corporate Citizenship external commentary of Land Securities Group Plc. Corporate Responsibility Report 2011. Also, another assurance procedure by accountants reviewed stakeholder materiality but failed to examine stakeholder engagement – KPMG LLP independent assurance report of BHP Billiton Plc. Sustainability Report 2011; they made ‘enquiries of management to gain an understanding of BHP Billiton’s process of determining material issues for BHP Billiton’s key stakeholder groups’. Apart from these two assurance procedures, all other assurance statements that considered stakeholder engagement also reviewed issues material to stakeholders as indicated in Table 4.14 below.

Stakeholder inclusivity and responsiveness was considered during 27 assurance procedures (ETQ 4.4.9 and 4.4.10). 13 accountants and 14 non-accountants examined stakeholder engagement, materiality, responsiveness and inclusivity. Only KPMG LLP independent assurance report of BHP Billiton Plc. Sustainability Report 2011 reviewed stakeholder materiality but failed to include stakeholder inclusivity and responsiveness. Furthermore, 24 of the 27 procedures that investigated the elements in Table 4.14 below also adopted the AA1000AS as an assurance guideline, not surprising given AA1000AS emphasis on stakeholder issues.

Table 4.14 Consideration of stakeholder engagement (ETQ 4.4.7 to 4.4.10)

| | Accountants | Non-accountants | Total |
|---|-------------|-----------------|-------|
| Review approach to stakeholder engagement | 13 | 15 | 28 |
| Review stakeholder materiality | 14 | 14 | 28 |
| Review stakeholder responsiveness | 13 | 14 | 27 |
| Review stakeholder inclusivity | 13 | 14 | 27 |

Rationally, the process of reviewing stakeholder engagement could be used to address to aspects of materiality, inclusivity and responsiveness. Stakeholder engagement emphasizes on the collaborating of companies and stakeholders for the benefit of both parties (Sloan, 2009), while stakeholder materiality, inclusivity and responsiveness are designed to ensure companies are accountable to stakeholders (AA1000APS, 2008). Therefore, the concepts of materiality, inclusivity and responsiveness could be considered as a subset of a wider stakeholder engagement model. Findings in this aspect seem to support this position since 96% of assurance statements that considered stakeholder engagement also assessed materiality, responsiveness and inclusivity. Also, 90% of assurance procedures that adopted the AA1000AS examined stakeholder engagement, materiality, inclusivity and responsiveness to provide more support on the close association between AA1000AS and stakeholder accountability.

The sample also shows that only 2 of 10 assurance procedures that interviewed stakeholders failed to include an evaluation of stakeholder engagement and the AccountAbility principles (materiality, inclusivity and

responsiveness); both procedures adopted a stakeholder panel approach. Furthermore, Corporate Citizenship assurance statement of Whitbread Plc. Corporate Responsibility Report 2011 is the only procedure that reviewed peer reports without reviewing stakeholder engagement and the AccountAbility principles. While PwC LLP independent assurance report of HSBC Holdings Plc. Sustainability Report 2010 is the only assurance statement that analyzed media reports without taking stakeholder engagement practices into consideration. All other assurance procedures that reviewed the media and peer reports as external sources of evidence also reviewed stakeholder engagement and the AccountAbility principles. As such, the majority of assurance engagements that assessed stakeholder engagement and the AccountAbility principles also considered external sources of evidence. Even with the apparent close association between stakeholder engagement and principles of materiality, completeness and responsiveness in assurance, the general degree of stakeholder engagement and involvement in the practice is low. Evaluating the AccountAbility principles of materiality, inclusivity and responsiveness as well as other relevant elements of assurance engagement requires a particular approach that is not only reflected in evidence gathering as identified above, but also in presenting a conclusion for the assurance procedure.

4.7 Nature of Conclusion Provided

The conclusion of an assurance statement is crucial in meeting the objective of the entire assurance engagement. Conclusions inform users about the perspective of assurance providers after examining reports and

obtaining further evidence to support the claims made in sustainability reports. According to Deegan et. al (2006), conclusions have a significant value in sustainability reporting assurance services. Conclusions are regarded as the ultimate aim of assurance providers in assurance statements (Manetti and Becatti, 2009). AA1000AS (2008) requires assurance providers to document assurance conclusions on relevant subject matters reviewed in the assurance engagement, while the ISAE3000 (2004) went further to request conclusions to be drawn on all evidence gathered regardless of whether it supports or contradicts the investigated subject matter.

This section investigates conclusions of assurance statements in 3 categories; opinion of the assurance provider- this is the position of assurance provider on the company's reported sustainability performance. Observation of assurance provider- these are the developments, lapses and issues assurance providers have observed during assurance procedures. Recommendation of the assurance provider- these are suggestions provided by assurance providers on how the reporting companies could improve its sustainability reporting and performance. Particular attention is given to the type of recommendation offered by assurance providers, especially if they are related to stakeholder issues. The last aspect is not always presented as part of conclusion but should be considered in every activity and is recommended by both AA1000AS and ISAE3000: limitations of assurance procedure.

Only 6 assurance statements failed to be accompanied by a clear opinion from the assurance provider (ETQ 4.5.1), none were produced by

accountants, none provided details of assurance provider's independence and none complied with ISAE3000 assurance guideline. 3 of the 4 statements that adopted a stakeholder panel approach fall amongst those without a clear opinion. Hence, the External Review Committee (ERC) report of Royal Dutch Shell Plc. Sustainability Report 2010 is the only statement by stakeholders that provided a conclusion on the procedure. The assurance statements without opinions are:

- SKM enviros assurance statement of Amec Plc. Sustainability Report 2010;
- Centre for Sustainability & Excellence (CSE) assurance statement of Lloyds Banking Group Plc. Responsible Business Report 2010;
- Ocean Certification Ltd. Verification summary of Barratt Development Plc. Sustainability Report 2011;
- Corporate Citizenship stakeholder panel statement of Land Securities Group Corporate Responsibility Report 2011;
- Corporate Citizenship stakeholder panel statement of National Grid Plc. Social Purpose Report 2011; and
- Stakeholder panel statement of Balfour Beatty Sustainability Report 2010

All the other assurance statements (92%) have some kind of conclusion to support the assurance engagement, as shown in Table 4.15 below. For instance, Corporate Citizenship's assurance statement of Pearson's Our Impact on the Society Report 2010 formed their conclusion by stating 'based on the scope of work undertaken, nothing has come to our attention to indicate that Pearson's environmental data has been

materially misstated'. Even though most statements have conclusions, the term 'true and fair' continues to be absent in presenting conclusions as previously found by O' Dwyer and Owen (2005 and 2007); Deegan et. al. (2006). Assurance providers appear to employ different wordings in stating their opinion, but seem to reflect on the scope of assurance engagements (Deegan et. al, 2006). An example of this is Corporate Citizenship assurance of United Utilities Group Plc. Corporate Responsibility Report 2011 whose conclusion was 'in our opinion the United Utilities Corporate Responsibility Report 2011 reflects the principles of AA1000 (2008): inclusivity, materiality and responsiveness. United Utilities has demonstrated that the quality of data presented in the CR Report does meet the requirements of a moderate level of assurance'. This conclusion by Corporate Citizenship is entirely different in all aspect and focus from the conclusion at the beginning of the paragraph by the same assurance provider.

Among the 27 assurance engagements that complied with the AA1000AS guideline, 24 statements structured their conclusion section by making reference to either the AccountAbility principles or by naming the principles – materiality, inclusivity and responsiveness as advised in the AA1000AS (2008) guideline. The 3 statements that failed to provide such information also did not examine stakeholder engagement during their assurance procedures, they are; Virtuous Circle verification statement of Man Group Plc. Sustainability Report 2011, ERC report of Royal Dutch Shell Plc. Sustainability Report 2010, and the stakeholder panel statement of Balfour Beatty Sustainability Report 2010.

Table 4.15 Nature of conclusion provided (ETQ 4.5)

| Aspects of conclusion | Accountants | Non-accountants | Stakeholders | Total |
|-----------------------|-------------|-----------------|--------------|-------|
| Opinion | 33 | 33 | 1 | 67 |
| Observation | 13 | 33 | 2 | 48 |
| Recommendation | 13 | 31 | 2 | 46 |
| Limitation | 5 | 2 | | 7 |

Although 6 assurance providers did not present a clear opinion, all of them offered their perspective in terms of observed improvements or information included about reporting companies' sustainability performance over the year (ETQ 4.5.2). Thus, observations by assurance providers were presented in 47 (64%) statements; this element is not particularly common among accountants with only 13 of 33 (39%), but most statements by non-accountants 33 of 38 (87%) and all by stakeholders were accompanied by observations. Opinion and observation of assurance providers are different but not entirely unrelated. Comments about opinion deal with the accuracy, reliability and consistency of the data and information included in a particular sustainability report. While observation comments deal more with systems, processes and policies that were implemented to meet certain objectives, these objectives in many cases, could be used to produce data incorporated into sustainability reports.

An example of this is Lloyd's Register Quality Assurance (LRQA) assurance statement of BT Group Plc. Sustainability Report 2011. Their opinion was

‘Based on LRQA’s approach, BT has met the conditions for adherence to the AA1000 Accountability Principles and GRI Guidelines’. While the first point on observation was ‘BT has effective processes in place to identify stakeholder groups and actively encourage them to participate in the determination of material sustainability issues’. In this assurance statement, the first point of observation seems to be describing an aspect of BT’s approach to stakeholder participation, this can generate stakeholder participation data viable enough to be included in BT’s sustainable report. This is reflected in LRQA’s assurance engagement opinion by making reference to the AA1000 Accountability Principles, where stakeholder participation is an important aspect of the Accountability Principles (AA1000APS, 2008). Furthermore, all the assurance providers that complied with the AA1000AS (2008) also included observations of respective companies’ sustainability reporting performance except 2 - PwC LLP independent assurance report of Imperial Tobacco Group Plc. Corporate Responsibility Report 2011 and KPMG LLP independent assurance report of WH Smith Plc. Corporate Responsibility Report 2011.

Recommendations by assurance providers appear to be apparent in assurance statements, this occurred on 46 (63%) instances (ETQ 4.5.3). The exact same 13 assurance statements by accountants that included observations also provided recommendations to reporting companies. Amongst them, 10 complied with the AA1000AS, this can be interpreted that perhaps accountant assurance providers are more likely to include statements of observation and recommendation if they employ the AA1000AS. Non-accountants have a greater number of statements in the

sample with recommendations at 31 including all 13 non-accountants that complied with AA1000AS. While majority (18) of the assurance engagements by non-accountants that offered recommendations did not adopt the AA1000AS, other assurance provider groups in the sample shows that recommendations in assurance engagements is likely to be present after employing the AA1000AS – accountants with 10 of 13 and stakeholders with 2 of 2.

Accountants have the highest number of assurance engagements without recommendations and observations with 20. However, 2 statements by accountants and 1 by non-accountants claimed they offered their observations and recommendations in a separate report presented to the reporting company's management. One of them is PwC LLP independent assurance statement of Reckitt Benckiser Plc. Sustainability Report 2010; they stated that 'Our Observations and areas for improvements will be raised in a report to Reckitt Benckiser's management'. The other 2 statements offered similar wordings; they are KPMG LLP independent assurance report of WH Smith Plc. Corporate Responsibility Report 2011 and Citrus Partners LLP assurance statement of Petropavlovsk Plc. Sustainability Report 2010.

While most of the assurance statements that were accompanied with observations also have recommendations, including those whose recommendations and observations were only mentioned, some few have either observations or recommendations without the other. This occurred in only 4 occasions, all handled by 4 different non-accountant assurance providers. 3 statements included observations but had no

recommendations, they are – RPS Group environmental data verification statement of Lloyds Banking Group Plc. Responsible Business Report 2010, DNV independent audit of Balfour Beatty Plc. Sustainability Report 2010 and Acona Partners LLP verification statement of Home Retail Group Plc. Corporate Responsibility Report 2011. The last single assurance provider offered recommendation without a comment on observation – ERM CVS independent review of reported HSE performance of Premier Oil Plc. Social Performance Report 2010.

A consideration was made on recommendations relating to stakeholders issues, which 35 (48%) assurance providers in the sample had offered: 21 non-accountants, 2 stakeholders and 12 accountants (ETQ 4.5.4). When considered in terms of total assurance statements with recommendations (46), 76% of them had recommendations directed to stakeholder issues. For instance, Ernst & Young LLP independent assurance statement of Vodafone Group Plc. Sustainability Report 2011 offered a recommendation by stating ‘Vodafone will need to review whether its approach to stakeholder engagement and responsiveness is sufficient to balance stakeholder needs and define appropriate responses in these rapidly changing markets’.

Also, the 22 of 28 (79%) assurance statements that examined stakeholder engagement practices of companies’ reports provided recommendations on how to improve the stakeholder related matters. Of the remaining 6 with no recommendations on stakeholders, 3 had no recommendations entirely – PwC LLP independent assurance statement of Imperial Tobacco Group Plc. Corporate Responsibility Report 2011, Citrus Partners LLP

assurance statement of Petropavlovsk Plc. Sustainability Report 2010 and Ernst & Young LLP assurance report of Xstrata Plc. Sustainability Report 2010. While the last 3 reviewed stakeholder engagement practices of their client companies and offered recommendations, but none regarding stakeholder matters - Ernst & Young LLP independent assurance statement to Aviva Group Plc. Corporate Responsibility Report 2010, LRQA assurance statement of BT Group Plc. Sustainability Report 2011 and Ocean Certifications Ltd. Verification summary of Barratt Development Plc. Sustainability Report 2011.

Based on the close association between AA1000 and stakeholder accountability, only 4 of 27 assurance procedures complied with AA1000AS but failed to offer recommendations relating to stakeholders. They are the assurance statements of Imperial Tobacco Group Plc. by PwC LLP, Aviva Group Plc. by Ernst & Young LLP, Barratt Development Plc. by Oceanic Certifications and BT Group Plc. by LRQA. Also, 10 assurance engagements were found to neither comply with AA1000AS nor review stakeholder engagement practices, but outlined recommendations to reporting companies about stakeholder issues.

The final aspect of conclusion by assurance providers is limitation of the assurance procedure. Limitation of assurance engagement only featured in 30 statements, majority of which are accountants with 19, all the remaining 11 are non-accountants (ETQ 4.5.5). None of the stakeholder panel procedures provided limitations on the assurance engagements they discharged. The ISAE3000 guideline (2004) states that assurance providers should inform users of limitations of the engagement in the statement to

avoid wrong interpretation and assumptions. This is possibly why most of the assurance providers that included limitations of the exercise are accountants. The AA1000AS (2008) requires that 'any limitations in scope of the disclosures, the assurance engagement or the evidence gathering shall be addressed in the assurance statement and reflected in the report to management if one is prepared'. Thus, 17 statements that complied with the AA1000AS included a statement of limitation where 10 procedures with limitations adopted both AA1000AS and ISAE3000 simultaneously. It appears that only 4 engagements provided limitations but did not conform to any renowned assurance guideline, all addressed to stakeholders, all by non-accountants and 3 issued by Bureau Veritas.

Conclusions in assurance engagements are of vital importance that only 6 failed to provide a formal conclusion or opinion. It however means that these 6 assurance statements would not be considered of a high quality and in some cases be possibly overlooked. Also, the position that observations and recommendations were chosen by assurance providers to be reported directly to management might seem disconcerting to users as it appears contradictory of the purpose of assurance since it is aimed at informing external parties about companies' activities.

4.8 Discussion with Theoretical Perspectives

The findings on assurance practices observed above are interpreted with consideration of the relevant literature and theories in the field of social and environmental practices. Findings show that the majority of companies with assurance statements (55 of 68) are amongst those with

the largest market capitalization in the entire sample (Evaluation Template Question (ETQ) 1.3.1). Thus confirming the line of reasoning that large companies are more associated with sustainability reporting assurance (Kolk, 2010; Simnett et. al, 2009; Othman and Ameer, 2009; Blanco and Souto, 2009).

The large size of these companies assist in attracting the attention of relevant publics, which might be shaped in the form of expectations (Deegan and Unerman, 2011). Societal expectations take the form of pressures that companies prefer to swiftly address (Brown and Deegan, 1998; Deegan et. al, 2002), by adopting various legitimating strategies (Patten, 1992; Lindblom, 1993; Unerman et. al, 2007). Assurance could be perceived as a legitimating strategy (O' Dwyer et. al, 2011). Where Deegan and Unerman (2011) and Dowling and Pfeffer (1975) argued about the role of recognised independent third parties in sustaining the legitimacy of corporate practices. Findings (ETQ 2.4, 4.2.4, 4.2.5) show that efforts by recognised institutions such as IFAC, GRI and AccountAbility were associated with 81% of assurance statements in the sample. The contribution of these bodies could perhaps enhance the legitimacy of assurance practices. However, an examination of assurance statements alone is inadequate to clarify exactly how GRI, AccountAbility and IFAC improve the legitimacy of assurance procedures and statements.

Even though companies take the decision to commission assurance, regardless of the chosen legitimisation strategy, the nature of assurance services requires that reporting companies should not play any role in actual assurance engagements (Adams and Evans, 2004). The involvement

of management in assurance engagements could influence decisions to be taken in favour of the reporting company, commonly termed as 'managerial capture' (Smith et. al, 2011; O' Dwyer and Owen, 2005; 2007; O' Dwyer, 2003; Milne, et. al, 2006). A considerable number of studies have identified elements in assurance statements that suggest the presence of managerial capture (see Ball et. al, 2000; Owen et. al, 2000; Deegan et. al, 2006; O' Dwyer and Owen 2005; 2007; Jones and Solomon 2010).

The presence of capture serves to undermine principles of accountability, transparency, efficiency and credibility that are the bedrock of the audit theory. O' Dwyer and Owen (2007) expressed concerns of managerial control in assurance processes due to the nature of assurance provider's independence that appeared in 55% of the study sample. Findings in this study indicate an improvement in statement of independence by assurance providers, which occurred in 82% of the sample (ETQ 4.1). However, 18% of the sample did not clearly express their independence to users of sustainability information. Ball et. al. (2000) argued that the degree of independence exhibited by assurance providers is the most telling indicator of the 'quality' of assurance statements, which includes the extent of management control in assurance processes. With the improvement in the total number of statement of independence in this study, more should be known about assurance providers' independence in order to form an informed assessment on the 'quality' of assurance services.

Further observations indicated that assurance providers tend to shape their scope of assurance by clearly stating 'in accordance to managements instructions' (ETQ 4.2.6). This seems to imply managerial involvement in at least some areas of assurance procedures where audit and assurance engagements should be free from managerial influences (O' Dwyer and Owen, 2005; 2007; Adams and Evans, 2004; Perego and Kolk, 2012). Jones and Solomon (2010) revealed evidence of managerial involvement in assurance engagements by suggesting that corporate management set the agenda, decide on scope and level of assurance and pay the assurance providers. This supports the claim by O' Dwyer and Owen (2007) that assurance providers appear to be subservient to corporate interests.

The findings indicate effort by the two broad groups of assurance providers are continuously seeking to render the area of social and environmental reporting auditable (ETQ 3.2), which can be noticed by the different nature of assurance approaches. Difficulties should be expected as on the one hand, accountants (who were responsible for assuring 45% of the sample) attempt to establish their presence in a field that is relatively similar but rather complex in relation to their original area of expertise (Power, 1997; O' Dwyer 2011). The similarity between financial auditing and social and environmental auditing can be understood to be a reason why accountants transfer their traditional auditing techniques into new assurance forms (see Power, 1997), including in an area that is regularly characterized by often vague qualitative data. Findings show that carrying out analytical procedures strictly by accountants can be used to support this viewpoint (ETQ 4.3.8). O' Dwyer (2011) argued that

accountants' reliance on 'tacit knowledge' have led to subjective assessments of sustainability reported information.

On the other hand, non-accountants (who were responsible for assuring 52% of the sample; ETQ 3.2) depending on their respective fields are believed to have a better understanding of social and environmental issues (Unerman et. al, 2007), where early forms of non-financial audit practice was produced by lawyers (Power, 1997). Findings indicate non-accountants are still relevant in contemporary non-financial audit engagements. Their approach to assurance engagements is quite different from that of accountants, possibly as a result of their respective backgrounds and mindsets. Findings show that non-accountants do not entirely comply with renowned standards as 45% of assurance engagements by non-accountants failed to comply with an assurance guideline (ETQ 2.4), in contrast to accountants who complied with assurance guidelines in all (100%) of their assurance engagements. Based on the findings, non-accountants appear to adopt a range of methods in the process of assurance (ETQs 4.1.1, 4.3, 4.4, 4.5). Thus, non-accountants are more likely to include individuals or groups from various fields within their audit teams, depending on the type of information being audited. Power (1997) maintained that a complete non-financial audit is one that is carried out by a multidisciplinary team of experts.

Based on the institutional theory that ascribe to the similarities that exist among companies' way of operating (Deegan, 2014), the cluster of companies that assure their sustainability reports could possibly be explained from the perspective of similar institutional factors. In this case

their size, since they are all from the largest group of companies in the sample³⁵. This can perhaps be viewed as a case whereby different companies with different backgrounds who are operating in the same environment adopt similar actions. More specifically, general elements of assurance appear to be quite present in majority of assurance statements (see ETQs 4.1 - independence 82%; 4.2 – assurance scope 100%; 4.3 – assurance work undertaken 100%; 4.5 – assurance conclusion 100%).

However, the findings also show the application of most assurance elements are at best sporadic (ETQs 1.4, 2.1, 2.3, 2.4, 2.6, 3.3, 4.1, 4.2, 4.3, 4.4, 4.5). The dissimilar assurance practices contribute to weaken the isomorphic characteristics based on assurance reports. This is because the approach and process of conducting assurance varies significantly. Findings show that issues of assurance title, addressees, scope and level of assurance, presence of assurance date, guidelines, stakeholders and conclusions are visibly inconsistent across assurance statements in the sample. The number of consistent application of elements across the sample are clearly too limited to establish assurance as a homogeneous corporate practice. Findings from the perspective of the institutional theory suggest that while certain isomorphic properties exist across sustainability assurance performance, the apparent application of individual assurance processes remains significantly inconsistent.

For companies to be actually accountable to wide range of stakeholders through assuring their sustainability reports, vital aspects of assurance engagements should embrace the perspectives of stakeholders (Adams

³⁵ Based on market capitalization

and Evans, 2004; Blanco and Souto, 2009). This is necessary because the nature of the so-called sustainability reporting and assurance is meant to primarily satisfy user needs of external stakeholders. Thus, for issues that are material to stakeholders to be recognised and treated accordingly, they (stakeholders) should be involved (Unerman, et. al, 2007). This is quite consistent with the stakeholder theory argument of Freeman (1984) that companies should consider stakeholders within their business conducts, where meaningful stakeholder association with corporate activities is believed to result in successful outcome (Jones and Iwasaki, 2011; Roberts, 1992; Greenwood, 2007; Sloan, 2009). The consideration of properties within the stakeholder theory when reporting and assuring sustainability information might provide a better platform for both practices to be improved. However, findings suggest majority of the assurance statements are directed to members within the reporting organization (ETQ 2.3).

Findings relating to stakeholder participation in assurance engagements also indicate an increase in the approaches used by assurance providers to elicit assurance evidence from stakeholders (ETQs 4.4.1 to 4.4.10), which can be viewed as a growing form of communication between the two parties. This position is consistent with the position by O' Dwyer et. al. (2011) who observed that dialogue with stakeholder groups in sustainability auditing is increasing (O' Dwyer and Owen, 2007; Manetti and Toccafondi, 2012).

With the increasing dialogue of stakeholders in assurance practices, it still remains unclear how these dialogues can improve assurance services.

There is the potential that collaboration between stakeholders could bring about understanding and lasting relationship amongst stakeholder groups (Sloan, 2009). However, the composition of stakeholders along with their respective, possibly varying expectations and demands as well as different classifications makes it difficult for one to understand the exact effectiveness of stakeholder dialogues in contributing to the development of assurance.

There was also a noticeable observation on the type of stakeholders that were interviewed in assurance procedures, although few engagements interviewed stakeholders, most of them appear to be employees of respective reporting companies³⁶ (ETQ 4.4.5). With the general importance of employees to companies, assurance providers should not only focus on the perspective of employees because there are other external stakeholders³⁷ that can provide much needed insights on the state of sustainability issues apart from employees. A broader view of stakeholder perspectives might assist in providing valuable insights to the process, assurance providers and reporting companies (Park and Brorson, 2005; Edgley, et. al, 2010). Also, assurance providers did not provide details regarding why the interviews focused solely on employees. It would prove informative to users of assurance statements whether, for instance, assurance providers made attempts to interview other stakeholders but were not successful. The challenges faced by assurance providers in engaging stakeholders and reasons behind the dominance of employees in

³⁶ Excluding interviews of stakeholder panel members

³⁷ Such as NGO's, unions or activists

assurance engagements are not commonly available in assurance statements.

The sample companies presented further findings in relation to assuring stakeholder engagement disclosure. Systems of stakeholder engagement was examined in only 40% of the sample, this is consistent with the position held by Manetti and Toccafondi (2012) that assurance providers do not appear to be interested in assuring companies stakeholder engagement practices. This is the case even though 90% of companies have at least a section on stakeholder engagement practices and policies in their sustainability reports, with most covering a number of pages. Assurance is purely a voluntary activity but it would not prevent questions on why so many companies are disclosing details about their stakeholder engagement activities and policies yet so few assurance providers are verifying these disclosures.

The reasons why some companies disclose stakeholder engagement performance but fail to assure them are not particularly known, but it could, again, be associated to the issue of capture (Smith et. al, 2011; O'Dwyer and Owen, 2007). This is because it remains unclear whose decision it was to exclude stakeholder engagement disclosure from being assured. Assurance providers are in a good position to offer explanations for these types of issues in order to minimize the level of misinterpretations by users that can probably lead to wrong assumptions about assurance engagements. Since sustainability reports should primarily be produced for stakeholders (Adams and Evans, 2004; Owen et. al, 2001; O' Dwyer, 2005), elements that drive users to draw inaccurate

conclusions or cast doubt in the reported information does little to uphold the main purpose of assurance services and accountability as a whole (Medawar, 1976; Gray et. al, 1996; Bebbington, 1997; Unerman et. al, 2007). At this point, we cannot adequately deduce the reasons behind the dearth in assuring companies' stakeholder engagement practices. From the examination of assurance statements, the stakeholder theory assisted in understanding the extent to which stakeholder issues are addressed in sustainability assurance reports, an area that will be explored further in subsequent chapters.

4.9 Conclusion

This chapter focuses in answering the first research question of the study by an examination of assurance statements³⁸ of FTSE350 companies. Findings from the content analysis was classified into three segments. Firstly, the characteristics of companies with assurance statements were discussed where it was found that the 68 companies with assurance statements on their sustainability reports collectively constitute 73% of the cumulative market capitalization of the 350 companies in the initial sample. All major industries³⁹ are represented in providing assurance to sustainability disclosure while stand-alone reports and websites remain the common medium of disclosure. Secondly, the background information in assurance statements and information about assurance providers is discussed. Findings shows that 19 different titles of assurance statements were used, 21 different assurance providers were identified and most

³⁸ based on a developed Evaluation Template Questions as discussed in Chapter 3 (Research Methodology) and attached in Appendix III

³⁹ based on FTSE Industry Classification Benchmark (ICB)

assurance statements (73%) come with at least a recognised guideline that was carried out at a limited level.

Finally, the main features of assurance statements were explored which revealed a high tendency for assurance statements to be accompanied with a details about independence⁴⁰. There is also a higher focus on assurance of environmental information than social or other issues where a review of data collection and corporate documentation appear to be the most frequent approach with regards to assurance work undertaken. Based on the review of assurance statements, stakeholders are not involved in the process to a significant degree.

Assurance of sustainability reports is not a straightforward practice and is thus marred with differences in practice as reflected across companies reports. Findings suggests individual key elements are dissimilar and with the continuous absence of a universally acclaimed framework, assurance will probably continue to be a divergent practice, thereby adding to its complexity. Content analyses of assurance statements seem to provide only a fraction of understanding about the practice (Manetti, 2011). This makes assurance statements too open to subjective interpretation (O’Dwyer and Owen, 2007), which minimizes opportunity for comparison (Deegan et. al, 2006).

Getting a broader view on the various aspects of assurance engagements appears to require other forms of research tools in order to reliably assess

⁴⁰ 18% of the sample failed to declare independence, which is too high due to the importance of independence to sustainability assurance

its effectiveness. Since assurance is a dynamic and interactive process between at least assurance providers and companies, it becomes possible to understand such a practice using an approach that can elicit the perspective of practitioners in the field. Assurance is the product of a contested and interactive process, thus falling under what Smith et. al. (2011) refers to as social context. The proposed approach should be able to gain insights further than those obtained from assurance statements (O'Dwyer et. al, 2011; Manetti and Toccafondi, 2012; Smith et. al, 2011). As a result, semi structured interview questions were formulated based on sustainability reporting assurance literature and observed findings in the analysis of assurance statements above that needed to be explored further.

The next chapter focuses on the perspectives of assurance providers about the important role they play in assurance engagements.

Chapter Five: Assurance providers' views on sustainability assurance

5.1 Introduction

This chapter presents empirical findings from the perspectives of assurance providers regarding the roles played and issues encountered in the process of assuring sustainability reports. This encompasses the views that participant assurance providers have about sustainability assurance, which serves as an influencing factor that supports their pivotal role in commissioning the practice. The perspectives of assurance providers enable an expanded understanding of how important decisions are made during assurance engagements.

This chapter concentrates on the second research question as posed in Chapter 2 (literature review) and discussed in Chapter 3 (research methodology), which examines the important roles assurance providers play in assurance processes and how these roles have assisted in shaping the current state of the practice. The research question is divided into six supporting research questions to enable closer examination of issues expressed by interviewees and is consistent with the structure of this chapter. The supporting research questions are:

SRQ2a: What is the purpose of sustainability reporting assurance?

- SRQ2b:** What processes are in place to enable and support sustainability reporting assurance?
- SRQ2c:** How are the areas of focus for assurance engagements decided?
- SRQ2d:** How are the common approaches for assurance perceived by assurance providers?
- SRQ2e:** Why should stakeholder engagement information be assured and to what extent should stakeholders be involved in assurance?
- SRQ2f:** What are the possible issues to consider for the future development of assurance?

The succeeding section discusses the purpose of sustainability assurance (SRQ2a), subsequently followed by the efforts towards enabling assurance (SRQ2b) in the third section. Section four concentrates on assurance providers' areas of focus during assurance (SRQ2c), while section five deals with the various approaches used in assurance (SRQ2d). The sixth section focuses on stakeholder consideration in assurance (SRQ2e) and section seven explores issues relating to the future development of assurance (SRQ2f). Section eight presents general findings, while section nine uses inferences from theoretical perspectives⁴¹ and extant literature for discussions from key findings. This is followed by the chapter conclusion in section ten.

⁴¹ Audit, legitimacy, institutional and stakeholder theories

5.2 Purpose of Sustainability Assurance

Every important activity should have a clear purpose as it helps in the way it is received and adopted by others. Sustainability reporting assurance is one practice that has evidently been growing over recent years (Kolk and Perego, 2010; Simnett et. al, 2009; Kolk, 2010; Blanco and Suoto, 2009; KPMG, 2008; 2011; Mock et. al, 2007; Frost and Martinov-Bennie, 2010). This would have been difficult if its purpose or associated aim and benefits are not made clear and well understood. Due to the notable number of companies assuring their sustainability reports, it is expected that certain attractive qualities manifest as a result of engaging in the practice.

The general view from respondent assurance providers about sustainability reporting assurance is that it brings a value added dimension to sustainability reporting and performance of participating companies. The numerous possible reasons why companies assure their sustainability reports have assisted in collectively improving approaches to sustainability issues. The increasing relevance of sustainability disclosure has driven stakeholders to ask more questions and demand more transparency on sustainability issues. Thus, the value that assurance brings to company's processes helps in demonstrating that sustainability is viewed as an important part of businesses as well as appearing to be transparent in their endeavours.

Three interviewees (CA1, CA6, CA7) hold the view that sustainability disclosure should be considered with similar degree of rigor as annual

reports and accounts due to the growing relevance of sustainability impacts from corporate activities. All interviewees outlined why they think sustainability reporting assurance is important and what it brings to companies. Arguments were mainly related to two aspects: external stakeholders and internal management. The internal management and external stakeholder added value by a single practice is evidence of how instrumental assurance can be to businesses and societies. The various internal management and external stakeholder added values that assurance brings from the perspective of interviewees are discussed below.

5.2.1 External Stakeholders

The external drivers for seeking assurance were outlined by interviewees, where a large majority (77%, see Table 5.1 below) of them confirmed that sustainability assurance adds credibility to sustainability reports. Assurance assists in confirming to readers that reporting companies have genuine sustainability processes and procedures to the extent of inviting a professional independent third party to examine their claims. This enables readers acknowledge respective companies' disclosure towards viewing content of sustainability reports with an increased level of credence.

The presence of assurance statements in sustainability reports aid in building reader's confidence in the sense that its contents are not only prepared and published by an entity, but also vetted by external experts. Interviewees (38%) highlighted the element of confidence that assurance brings to companies' sustainability reports. The confidence that readers

get based on assured disclosed information enables them to make more informed and reassured decisions.

Table 5.1: Interviewees views on what assurance brings to sustainability reports

| Interviewees opinion on assurance | Sum of views | Percentage |
|---|---------------------|-------------------|
| Generally adds credibility | 10 | 77% |
| External stakeholders added value: | | |
| Building readers confidence in the accuracy of information | 5 | 38% |
| Feeling of comfort about content of report | 11 | 85% |
| Sustainability taken seriously by companies | 7 | 54% |
| Companies managing relationships with external stakeholders | 8 | 62% |
| Improve ratings standings | 3 | 23% |
| Enhance reputation of companies | 7 | 54% |
| Internal management added value: | | |
| Better understanding of systems and processes of sustainability performance | 8 | 62% |
| Effective internal checking device | 7 | 54% |
| Identifying risks and opportunities | 9 | 69% |
| Enhances internal confidence of sustainability processes | 9 | 69% |
| Areas of apprehension: | | |
| Identity of assurance provider | 8 | 62% |
| Exercise care when reading statements | 9 | 69% |
| Objectivity of assurance | 9 | 69% |

Also, the majority of respondents (85%) mentioned the comfort external users could gain as a result of having sustainability reports assured. One interviewee (CA4) stated that ‘companies get assurance in order to give

external stakeholders the comfort that information they are putting out in the public domain is robust'. The comfort assurance provides enable users to easily accept the type and nature of information published, given that it has gone through a robust and recognised process.

The commitment of time, resources and effort in ensuring sustainability reports are accompanied with assurance statements demonstrates to external stakeholders that participating companies are serious about sustainability. 54% of respondents were supportive of the role of assurance as a means of taking sustainability issues seriously (see Table 5.1). This was the first point made by an interviewee (AA3), who professed that 'assurance is necessary to show outside stakeholders that the whole subject matter of sustainability is important and taken seriously'. Even though assurance is largely voluntary, the dedication expressed by companies based on the investments made in the area has the capacity to show external users that they view sustainability as an important part of their businesses.

An interviewee (CA2) was keen to express his experience on assurance based on the valuable role it plays in building and managing relations with external stakeholders. The process of assuring sustainability reports is seen as a way of meeting the requirements or satisfying the expectations of particularly powerful and relevant stakeholders. A particular company, who happens to be a client of the interviewee, commissioned assurance on their sustainability report because of an impending alliance with a major bank. The interviewee said:

‘When companies are getting funding from western banks, the banks normally review the companies on a technical basis to ensure everything is done to the highest standards. So the company came to us for assurance just to ensure they have followed best practice’ (CA2).

Other companies use assurance to improve their standings in the ratings by independent acclaimed bodies as expressed by 23% of respondents in Table 5.1 above. Two respondents (CA3 and CA6) highlighted companies views on Carbon Disclosure Project (CDP) points in particular and how assurance play a considerable role in securing higher points and recognition. Assurance also enables CDP and their partners to view companies quite favourably, as those who are willing to transparently communicate their sustainability performance to a reasonable standard.

A collective consideration of all the external benefits associated with sustainability reporting assurance assist in enhancing the reputation and brand image of businesses. Table 5.1 shows that 54% interviewees supported the position that assurance serves as a conduit for enhancing companies reputation, while noting that companies are usually cautious about their reputation and outlook. Assurance has a role to play in portraying a good image from the perspective of external parties.

5.2.2 Internal Management

From an internal management perspective, Table 5.1 shows 62% of interviewees claimed that companies commission assurance to better

understand their systems and processes. One interviewee (CA5) stated that ‘assurance identifies errors and omissions that can help organizations improve their systems’. Identifying problem areas creates an opportunity to specifically manage situations towards enhancing efficiency of systems with the possibility of driving performance improvements.

Assurance can be used as an internal checking device between and across different arms of businesses, where 54% of respondents supported this position. An interviewee (CA7) outlined how a subsidiary company requested for assurance primarily because their parent company ‘was not entirely sure that their data was accurate’. Thus, the confidence in communicating accurate data, calculations and information has increased significantly. Where internal management can make effective decisions with considerably lower level of risk by commissioning an independent assurance exercise.

A large number of interviewees (69%), particularly those representing the Big4 accounting firms keenly mentioned the high possibility for identifying risks and creating opportunities that stems out from sustainability assurance. Assurance significantly reduces the risk of reporting inaccurate information or data that can expose companies to scrutiny. The opportunities are mostly in terms of understanding areas where ‘businesses need better types of information that can enhance performance’ (AA3). This leads to improved levels of understanding about sustainability related issues and performance.

Companies also gain internal confidence in their reports after exposing themselves and their operations for scrutiny by an independent assurance provider, as 69% of respondents pointed out. The confidence as a result of assurance gives management reassurance about the state of their sustainability objectives and robustness of their procedures. This, according to one interviewee (AA3), is a good mechanism for assessing the effectiveness of stewardship responsibilities of management in using an organization's resources.

5.2.3 Issues of Concern in Assurance

With the apparent added value associated with sustainability reporting assurance, all interviewees expressed reservations about the practice. The most common is that sustainability reporting assurance needs more clarity about its basic components. 62% (Table 5.1) of respondents argued about the specific identity of assurance providers. One accountant interviewee was concerned that even after almost 10 years of providing sustainability assurance, he cannot clearly identify the specific attributes of a universally qualified sustainability assurance provider. A contrast was made with the traditional audit of annual reports, as he stated:

'If you look into the financial assurance space, there are very prescribed rules about who can be an auditor, what training they should have been through, what skills should they have, what they should do, and critically, if they don't do it, then what are the repercussions as part of that process, both for the auditor and the company. So if you don't disclose what you should do under the

company's act then you know, the Financial Reporting Council (FRC) can come in and get a penalty, fine you or publicly dress you down.

In the non-financial assurance space, in the sustainability assurance space, you have got the traditional what we call the Big4 accounting firms that can operate and do the assurance, but you can have boutique organizations, engineering organizations also providing assurance to companies, who have probably got great deep subject matter expertise in the area they are focused in but have probably never undertaken an assurance engagement before. They are able to do some and therefore there is a question about actually what does that actually mean for the whole assurance market, and so that is a different angle from which to sort of look at it'. (AA3)

With the increase in the number of sustainability assurance engagements over the years, 69% of interviewees indicated that caution should be exercised when reading assurance statements. One interviewee (AA4) stated that 'assurance statements have lots of caveats as to exactly what has been done'. Readers should be careful when reading the statements as the dynamic can easily change based on the possible numerous issues that could have been assured.

Another issue relates to the nature of decisions being made about assurance based on the numerous issues that can be considered. There needs to be more clarity on assurance decisions (CA7), for example, the whole process of why and how only a 'selection' of indicators was assured (to be discussed ahead in section 5.4) and the stages of how companies

implement improvements as a result of assurance are not clearly known. As a result, concerns about objectivity of sustainability assurance were raised by 69% of respondents. There have been suggestions from literature that statements represent only a fraction of what occurred during the assurance procedures (Power, 1996; Humphrey and Owen, 2000; Low and Boo, 2012).

Furthermore, assurance statements do not commonly portray a negative or critical picture of the state of a company's sustainability performance. An interviewee (CA6) was concerned that assurance statements are 'often very clean looking' and do not commonly indicate any particular faults with specific issues. This might affect its rather strong position of credibility because assurance statements often appear to depict things are okay when they probably are not in reality.

In summary, the practice of assuring sustainability reports has a value added characteristic that companies can greatly utilise to the advantage of their businesses. Empirical evidence provided above suggests these benefits form a major driver for companies to commission assurance on their sustainability reports. Both internal management and external stakeholders can appreciate the merits of assurance, which can lead to improvements in sustainability processes and enhanced relationship with stakeholders respectively.

However, all the merits associated with assurance are based on 'expected best practice' (CA6), therefore companies will have to comply with best practice in assurance to enjoy all its associated merits. This is why most of

the respondents raised some misgivings regarding the practice. At least, compromise should be established between the benefits of assurance and its areas of concerns. There is a need to look into specific key issues that influence and give rise to assurance. The way companies structure and disclose their sustainability information as well as the level of their understanding of sustainability assurance are vital areas that needs to be constantly monitored and improved for the real potential of the practice to be attained.

5.3 Enabling Sustainability Reporting Assurance

It is well documented in the literature that assurance providers and reporting companies are the key parties directly involved in assurance (Ball et. al, 2000; O' Dwyer and Owen, 2005; Edgley et. al, 2010; Park and Brorson, 2005; Manetti and Beccatti, 2009). However, the specific efforts by these parties that makes assuring sustainability reports possible has attracted little examination. The ability to discharge assurance engagements is based on the presence of certain prior or existing efforts and processes. This section presents interviewees perspectives on the necessary features that are in place to undertake assurance engagements.

5.3.1 Sustainability Disclosure

Given that every assurance work is based on an already prepared sustainability report, it is important for disclosed content of the report to be relevant and properly structured for assurance to achieve its highest possible value. Numerous studies on sustainability disclosure and

performance have considered the position of assurance within their discussions (Such as Kolk, 2010; Gray, 2010; Unerman et. al, 2007; Parker, 2005; Othman and Ameer, 2009; Gray et. al, 2009; Owen, 2007; Gray, 2001), but little attention has been committed to exploring the role of sustainability disclosure from the perspective of assurance providers.

All interviewees stressed the importance of sustainability disclosure as a way of enabling the possibility of discharging an assurance engagement. Disclosure in the area of sustainability has developed and improved over recent years (62%, see Table 5.2) thereby permeating the various types of issues that are discussed under the umbrella of the field. While there is a general guidance on sustainability disclosure (e.g. the GRI – G series and AA1000APS), the nature of the presentation of information does not only vary from company to company or issue to issue but also on the metrics and methodology by which such information was acquired, analyzed and reported. Assurance is generally affected by the nature and approach of disclosed sustainability information. This remained a reoccurring theme through out the duration of interviews with assurance providers.

A considerable number of interviewees (46%) specifically commended the way companies report environmental information as ‘very good’ (CA1). This is mainly because companies have adopted environmental disclosure much earlier than other aspects of sustainability, which has aided its development. Reporting on other areas of sustainability are not as straight forward, where respondents (AA1, CA1) argue that they are more ‘challenging’ and ‘complex’.

Interviewees agree that the 'social' aspect of disclosure needs the most attention and improvements. A number of interviewees (46%) were concerned that the social information disclosed by companies are not ready for assurance, as one respondent said that social information is 'not really clear' (AA4). Another interviewee (AA3) stated that the 'social space is less well developed and that the metrics are varied and bespoke'. This, according to the respondent is why Corporate Social Responsibility (CSR) is commonly regarded as Corporate Responsibility (CR) 'because the S – for Social - was a bit difficult to measure, so it got dropped'. Social issues are numerous and are quite challenging to standardize across different companies with different objectives.

Table 5.2: Interviewees views on efforts that enable sustainability assurance

| Interviewees opinion | Sum of views | Percentage |
|---|---------------------|-------------------|
| Sustainability disclosure | | |
| Sustainability disclosure has improved | 8 | 62% |
| Complimented improvements on environmental disclosure | 6 | 46% |
| Less improvement on social disclosure | 6 | 46% |
| Sustainability narrative is risky | 9 | 69% |
| Align sustainability disclosure with corporate strategy | 10 | 77% |
| Ensure continuous and consistent disclosure | 8 | 62% |
| Disclose material information | 12 | 92% |
| Promoting assurance | | |
| Direct conversations | 11 | 85% |
| Publishing reports | 7 | 54% |
| Carrying out pre-assurance | 6 | 46% |

The view of 69% of interviewees, particularly those from an accounting background, is that the narrative surrounding general sustainability information is ‘inherently risky’ (AA1). The wordings used by companies in their reports in describing sustainability outcomes and achievements are always relevant in assurance processes. As such, an interviewee (CA1) explained that they must always take extra care in dealing with every report that has a claim about being the ‘best’ in anything. The process of gathering the evidence (discussed ahead in section 5.5.3) to support the

statement of being the best in something is always challenging in itself. Ensuring that the company is actually the best against other competing organizations is another challenging task that is probably beyond the scope of a single assurance engagement. There is an apparent difficulty in verifying the qualitative narrative and the way companies explain issues in their reports can be objectively improved to assist assurance processes (CA1, AA5).

Another issue that interviewees raised relates to the sustainability strategy of companies and disclosure in relation to the strategy. The content of sustainability reports are not always properly aligned with companies' sustainability strategy and effectively linked to overall business strategy and objectives as outlined by a respondent (AA5). Another interviewee took a much broader view on this by arguing that:

'I think most companies when you look at their reporting, there is a bit of a disconnect within the reporting that has taken place. I think there are key building blocks of what is good corporate reporting and companies are very poor at integrating those key building blocks. So you will find lots of companies report on their key risks and opportunities, but very few companies then link those risks and opportunities to the strategy of the organization. Very few businesses then link all the KPIs, again, to the strategy of their organization.

Management and key management behavior is often unaligned with what the business is being asked to deliver and do because the

remuneration policy of senior management and directors is often not aligned with the achievement of objectives that are set in the sustainability space. So you get management behaving in a different way that you would want them to if you broaden that remuneration piece in the organization. It is then very difficult to provide assurance in the right places if you like, as part of the process. But that is where you then get a good healthy debate with the company about how to improve their reporting, how to improve their linkages and the connections between these different areas and then where the focus of the assurance should be.’ (AA3)

Other respondents share this view that 77% of them recommended that content of sustainability reports should be more aligned with corporate strategy. The emphasis is based on an attempt to ensure issues assured are aligned with the overall strategy of companies. While this process does not necessarily influence whether a company should assure its sustainability report or not, it does present a more meaningful link between strategy of a company, approach of the company’s reporting and issues assured.

While companies annually generate a huge amount of sustainability related information (AA4), sorting them out and disclosing the most material ones requires a careful process. Reporting on material issues are crucial to the extent that all interviewees mentioned its importance when expressing their views on sustainability disclosure. Seven interviewees stressed that it is imperative that companies thoroughly undertake their materiality assessment (CA1, AA1, CA5, CA6, AA4, CA7, AA5) to potentially

ensure assurance is based on the most valuable sustainable issues to every company. Assurance providers are not involved in making materiality decisions, as one interviewee said 'we don't take the view that it is for us to decide what is material' (CA1).

The majority of interviewed assurance providers (92% as shown in Table 5.2) indicated that they prefer to assure the most material information because it tends to bring more value to the outcome of the process. Though, it should be noted that what is viewed as material could be quite different or in need of more emphasis if viewed from the perspective of reporting companies or external stakeholders. A clear delineation on companies and stakeholder material issues are not commonly outlined in sustainability reports, but a notable number of interviewees (AA1, CA7, CA3, AA2, AA4, AA6, CA2) stated that external stakeholders should be involved in determining material issues.

The presence of sustainability disclosure is essential for assurance to be undertaken where an effective sustainability strategy needs to be in place, but other efforts are pertinent in creating a conducive environment that makes assurance possible. One of which is the role of assurance providers in encouraging companies to assure their sustainability reports and promoting the value of assurance, particularly to companies who have never commissioned the service.

Like many emerging activities, assurance providers have a key role to play in terms of promoting awareness about sustainability assurance. This is mainly to assist in building up an understanding of the service they are offering, making reporting companies feel more comfortable about deciding to engage in the practice and more importantly demonstrating the difference between commissioning and not commissioning assurance. The efforts of professional firms, such as KPMG, ACCA, ICAEW, Ernst and Young and PwC over recent years, by publishing regular contemporary reports have contributed immensely in enlightening the public about sustainability reporting assurance. As professionals who are constantly engaged in the practice, assurance providers should possess contemporary knowledge and insight about what assurance entails and what it brings.

Assurance providers communicate with reporting companies through various means such as ‘conversations’ (AA1, CA3), ‘webinars’ (CA7) and ‘writing blogs and articles’ (CA3). In total, 77% of interviewees confirmed that assurance providers engage in direct conversations with companies to discuss and promote assurance. Assurance providers also use one-on-one conversations with companies to inform them about the role assurance can play in managing pressure, particularly from peers. One interviewee (AA3) argued that ‘If you are the company in your industry not getting assurance, you look out of line’. This suggests having assurance

could be used as a competitive tool, which might be relevant for leading companies.

The large assurance firms, particularly the Big4 'who have a voice in the market place through producing thought leadership' (AA1), regularly produce reports on sustainability issues and specifically discuss issues about assurance. 54% of respondents supported the view that publishing relevant reports is used as a mechanism for promoting assurance. Interviewees (CA4, AA2) claim that content of the reports and discussions, in many cases, emphasizes the benefits of assurance (most of which have been outlined above in Table 5.1). The value of assurance is vital when communicating with companies as one interviewee put it 'we need to make sure that they see the value in independent assurance, so if you don't get any value out of it then there is no point doing it' (CA5). A clearer definition of value needs to be established in assurance.

The way assurance providers approach companies about assurance differs and is predominantly based on their experience of the practice. Companies that have never assured their sustainability reports require more time and explanation to clearly understand the processes, procedures and benefits. One interviewee was particularly cautious about this by stating:

'There are a lot of companies that are just really trying to understand reporting and assurance and the tendency there is to just put out a request for a proposal to a number of assurance providers and when you read it you realize that they don't actually

understand assurance because they don't provide the information that I need as an assurance provider in order to prepare a proposal' (CA6).

This is one of the reasons why assurance providers, as suggested by 46% of interviewees, recommend readiness assurance (AA2, CA6, AA3) or pre-assurance (AA5) or internal assurance (CA7). Readiness assurance gives companies the opportunity to practically assess what assurance can bring to their businesses. Readiness assurance is generally based on a few indicators and is mainly used internally (CA7). The outcome of a readiness assurance commonly results in adjustments and changes in some areas of operation before the main assurance can be undertaken (CA6, AA5, AA2).

Companies with prior experience in assuring their sustainability reports do not need significant encouragement because they have already witnessed and benefited from the process. Respondents maintained that the majority of their clients continue assuring their sustainability reports once they have started as an interviewee (CA3) claimed they have a 'brilliant record' for retaining assurance clients. The nature of communication between assurance providers and reporting companies on promoting an able environment for sustainability assurance suggest wider issues should be covered. One of these issues is around the focus areas, otherwise expressed as scope of assurance where companies need further encouragement.

5.4 Focus of Assurance

Even though assuring sustainability reports is pervading across various businesses, it does not mean that all assurance engagements cover either the same set of issues or the whole report. The findings in Chapter 4 (section 4.5.2) show that assurance engagements usually focus on specific sustainability information that varies from company to company. Due to the wide range of sustainability information companies disclose, it is important for the focus of every assurance to have a clear boundary through an agreed upon scope. Assurance statements briefly outline areas of focus in every engagement, but the process or reason behind reaching such a position has attracted little investigation. The perspectives of assurance providers about consideration of scope when discharging assurance engagements are explored in this section.

5.4.1 Scope of Assurance

The primary part of sustainability assurance is having a clearly defined scope as a basis of the exercise. Scholarly studies, such as O' Dwyer and Owen (2005; 2007), Mock et. al. (2007), Ball et. al. (2000), Manetti and Beccatti (2009) have stressed the importance of assurance scope. But as most studies are based on a review of assurance statements, the understanding around decision-making on assurance scope has been limited. Thus interviewees were asked about how decisions are made on assurance scope given that it varies across engagements as discovered in Chapter 4.

All interviewees were quick to outline that the scope of assurance is always specific to reporting companies and can focus on different issues across every engagement. The decision to include particular reported information in the scope of assurance is not straightforward, but it appears to be a product of an agreement between the reporting company and the assurance provider. The majority of interviewees (85%, see Table 5.3) pointed out that reporting companies initially specify the details of what they want to be assured. This is because ‘assurance is a voluntary activity that organizations can be as transparent as they want in terms of the assurance they are undertaking’ (CA7). As a result, they have the freedom to identify issues they want to be assured.

Table 5.3: Interviewees views on focus of assurance

| Interviewees opinion | Sum of views | Percentage |
|---|---------------------|-------------------|
| Scope of assurance | | |
| Important to clearly define scope | 13 | 100% |
| Companies initially outline potential scope | 11 | 85% |
| Decision of scope not responsibility of assurance providers | 12 | 92% |
| Challenge companies on outlined scope | 9 | 69% |
| Difficult to assure whole sustainability reports | 11 | 85% |
| Willing to assure whole sustainability reports | 3 | 23% |
| Type of assurance | | |
| Data accuracy | 12 | 92% |
| Data rightness | 9 | 69% |

Also, 92% of respondents clearly expressed the view that it is not the responsibility of assurance providers to decide on assurance scope, as the decision is simply not theirs to make. Assurance providers make majority of the decisions during an assurance engagement but the scope of assurance is one of the issues that are decided upon prior to the start of every engagement. This is particularly the case during the preparatory phase, which commonly consists of negotiation between the company and assurance provider. Furthermore, the assurance scope is, in most cases, selected from a number of disclosed information. Therefore, interviewees (AA2, CA7) felt it should be the responsibility of the party who are more conversant with the daily management of corresponding businesses.

One respondent (CA1) went as far as saying that there is a ‘real danger’ if assurance providers’ decides what companies should do. The problem is that the role of assurance providers should not interfere with management decision-making capabilities in anyway. Allowing this could lead to ‘substituting their own judgment for the judgment of management within a business’, which is not considered as one of the purpose of sustainability assurance.

Table 5.3 shows that 23% of respondents, all representatives of non-Big4 (CA1, CA6, CA4), expressed their willingness to assure everything in sustainability reports, but assuring entire sustainability reports is not common because of various practical reasons. The content of sustainability reports are generally composed of a great deal of information on KPIs, case studies and other issues, which possibly originated from various parts of the world using diverse range of metrics.

Realistically, assuring all these multifarious data, right from their respective sources within a short period of designated timeframe is simply impossible (AA2, AA3, CA4, AA4). 85% of interviewees agree that it is difficult for assurance providers to be able to assure the whole of sustainability reports. Obtaining the evidence across all these aspects to satisfy assurance provider's professional skepticism alone is a huge task. Prior to this, enough time is needed for planning. Afterwards, time is also required to thoroughly examine the data and reach a reasonable conclusion as well as going through the stages of preparing a statement.

In addition, companies always operate on a budget and the more indicators a company want to be assured, the higher the cost of the assurance. Some respondents (AA4, AA2, AA5, CA6) revealed that if companies were to consistently assure everything in their sustainability reports, the total cost would probably exceed the added value of commissioning the practice. Therefore, it is not very realistic and can easily end up being a bad business decision. This is why companies choose the areas they think are the most important to the business for assurance. A particular interviewee (CA7) thinks companies have the right to choose what they want to be assured because they are paying for the service. Another interviewee (CA5) holds a slightly different view of while companies should identify areas to be assured, assurance providers have a responsibility of ensuring these issues and indicators are actually relevant and material to both the company and external stakeholders.

Companies do not solely decide on assurance scope as interviewees stressed that assurance providers should not commonly accept their client's outlined assurance scope. Table 5.3 indicated that 69% of interviewees suggested that assurance providers should challenge companies on assurance scope. It is always part of assurance providers' professional duty to challenge companies towards deciding on a final assurance scope as one respondent put it:

'We would challenge them (clients) on that (assurance scope) and bring our views to the table on what we think for that company and that sector, what we think the most material issues are, there is a bit of back and forth at the start before we finally agree on the assurance scope' (AA4).

Another respondent took a similar view:

'In each instance you have got to review and consider what is relevant and what is not. So when you are determining the scope, it is about appreciating what those areas actually incorporate. If the scope does not include something the assurance provider view as important, it is something that we would clearly and strongly recommend that they include' (CA3).

Challenging companies to include vital issues in assurance scope are not always entirely successful as respondents confirm that assurance providers engage in debate with reporting companies where 'they (companies) budge, or we meet each other halfway' (AA4). One of the

main reasons for challenging companies is to strongly recommend, particularly important reported issues, that assurance providers have noticed to be missed, ignored or excluded in assurance scope. It then remains the responsibility of companies to decide whether to include these issues or not.

Challenging companies on scope seems to be a common source of arguments and debates as respondents were particularly supportive and keen that it should happen more often (AA4, CA6). The process does not only give companies a second voice on important issues that needs assurance but also areas in which they can improve their reporting for assurance to be possible. According to two respondents, challenging on scope has had a noticeable effect on some companies who decided to adopt a 'cyclical' or 'rotational' approach, due to the underlying constraints associated with assuring entire reports (AA3, AA6).

The idea behind cyclical assurance is to ensure all the key sustainability aspects of a business are subject to assurance over a given period. A plan is developed that divides sustainability issues to be assured for up to the number of years in every cycle. The division is to allow assurance providers focus on particular issues in a realistic, affordable and effective manner (AA4). Also, the risk associated with specific issues are considered when planning the division, as a result some important issues always have the tendency to be included in assurance scope.

Also, as assurance providers examine companies' operations over time, which contributes to an in-depth understanding of their activities, they

generally look to broaden the extent of scope coverage over some areas while creating new indicators that are relevant. As a result, some respondents (AA2, AA3) highlighted that a sustainability assurance 'road map' or 'journey' is commonly developed for every client to monitor assurance performance improvements and deviation. The purpose of the road map is for companies to be able to detect for themselves how well they have been performing, what areas needs improving and identify where changes are required. Given that assurance providers are not involved in deciding on the initial assurance scope, it presents the opportunity for relevant external stakeholders to be involved. Also, the challenge by assurance providers should focus more on the benefit of the engagement towards external stakeholders.

5.4.2 Types of Assurance

As assurance scope dictates what issues assurance providers concentrate on, the way every engagement is undertaken is shaped by they type of assurance. Apart from deciding on assurance scope, in some cases, a decision also has to be made about the type of assurance to be carried out. Interviewees classified this as data accuracy and data rightness. Type of assurance is closely related and a more complicated issue than scope of assurance simply because not all assurance providers are of the view that assurance should be categorized as having different types.

It is interesting to note that assurance providers themselves disagree about certain issues, as some respondents believe assurance is designed to specifically examine the accuracy of sustainability reports. Assurance

engagements should only focus on determining whether the data, figures and information in sustainability reports are correct and consistent with the processes and procedures of respective companies (AA2). Respondents that subscribe to this view believe it to be the only purpose of assurance (AA1), as 92% of interviewees acknowledge that assurance should be based on data accuracy.

However, Table 5.3 also shows that 69% of interviewees indicated that assurance could be aimed at investigating data rightness (CA4). This position assumes that assurance should also examine and ensure whether the right information – in terms of being the most relevant- are being assured. According to one respondent:

‘Not all types of assurance are the same, in some case; it is just to ensure that the data and information is materially correct, the data is accurate. But in other cases it is to do that and also to determine that the right information is included in the report. So in the first case it is checking that the information is right and in the second case its whether the right information is included in the report. And depending on the purpose on which the assurance is procured, it could be very different, not all assurance processes are the same. We specialize in both’ (CA4).

The data rightness view of assurance has a more significant emphasis on assuring disclosed material information. This does not mean that the data accuracy assurance is not concerned about material issues, only that there is a difference in how the materiality is viewed. In data accuracy

assurance, assurance providers assume that reporting companies have already undertaken their materiality assessments and included vital issues within the scope of assurance (AA1). Assurance providers are involved in materiality issues to a significantly lesser degree in this type of assurance, as an interviewee stated that 'if you are just verifying data and information, then you don't necessarily have to verify anything that is material, its the client that chooses' (CA5).

Meanwhile the data rightness assurance is more actively involved in identifying material issues for reporting companies as they have the opportunity to thoroughly question companies' materiality issues. Data rightness allows assurance providers to consider more elements associated with issues being examined, thus, they operate on a larger space, even if the same set of indicators are being assured in comparison with data accuracy assurance. An interviewee (CA6) argued that data rightness assurance is more advantageous to both companies and external stakeholders because it contributes much more to having a complete report, however, it demands much more effort. Deciding on type of assurance is also a decision that appears to rest with reporting companies. Assurance type deserves careful consideration as it affects the whole approach for every engagement. It also affects the extent to which the report will be beneficial to various groups of users.

In summary, every assurance engagement is based on a scope of indicators to be examined. However, the scope of every engagement varies between companies and across years. The scope of assurance is commonly decided between companies and assurance providers, with

companies selecting and assurance providers challenging what has been selected. Apart from assurance scope, some assurance providers consider type of assurance, which could be data accuracy or data rightness. Those who do not consider type of assurance regard the entire practice as one that only focuses on examining the accuracy of reported information. Others that subscribe to the data rightness assurance view the practice as one that can go beyond data accuracy. Given the wide range of sustainability information that can possibly be produced, assuring the right information that is most valuable to users is important and potentially cost effective.

While selecting or identifying what to assure is important, the processes assurance providers consider and utilise towards discharging an assurance engagement is crucial to having a well-accepted assurance statement. Thus, the approach of assurance providers in carrying out sustainability assurance services follows.

5.5 Approach to Sustainability Assurance

Every professional conduct has a point of reference or a previous context within which to relate the practice to, without which the practice cannot be perceived as a credible endeavour towards achieving its objective. This section discusses concepts and frameworks assurance providers adopt for the purpose of assurance, primarily to assist in guiding them towards achieving their objective and getting the best out of the investigation.

5.5.1 Assurance Guidelines

Established professional conducts are commonly supported by a framework, guideline or standard, sustainability reporting assurance is one field that has witnessed gradual prominence with the presence of guidelines over recent years. The literature is dominated with statements and arguments in support of sustainability assurance guidelines and standards (Manetti and Toccafondi, 2012; Mock et. al, 2007; Deegan, et. al, 2006; O' Dwyer and Owen, 2007; Ianssen-Rogers and Oelschlaegel, 2005; Blanco and Souto, 2009). Also, findings from the examination of sample assurance statements of FTSE350 companies in Chapter 4 (section 4.4.2) showed that 77% of assurance engagements used recognised guidelines. With the presence of two main assurance guidelines⁴², it seems pertinent to understand more about assurance providers' views on employing either or both guidelines and reasons surrounding such a decision. Consideration of guidelines is one of the most conspicuous ways by which assurance providers approach assurance engagements. The presence of an assurance guideline is strongly recommended in every assurance engagement, according to 92% of interviewees in Table 5.4.

The availability of two main guidelines in sustainability assurance makes the consideration process even more interesting. The AA1000AS and ISAE3000 assurance guidelines might, in some cases, have similar requirements and development processes but their approach is fundamentally different as argued by a number of interviewees (AA6, AA1,

⁴² ISAE3000 and AA1000AS

AA2, CA4, CA6, AA3). The ISAE3000 requires assurance providers and reporting companies to agree on issues to be assured, as responsibility of producing the whole report as well as criteria for assessing performance lies with reporting companies. Meanwhile, the AA1000 requires assurance providers' assessment on whether issues included in a report are materially of interest to stakeholders and if the reporting company has provided an adequate response to these issues in the report. These differences influence what and how indicators are considered for assurance purposes. However, the guidelines are produced to compliment each other if they are to be used in a single assurance engagement.

Table 5.4: Interviewees views on assurance approach

| Interviewees opinion | Sum of views | Percentage |
|---|---------------------|-------------------|
| Guidelines | | |
| Important to use assurance guideline | 12 | 92% |
| ISAE3000 is the preferred guideline | 5 | 38% |
| AA1000 is the preferred guideline | 3 | 23% |
| Concerns about ISAE3000 | 6 | 46% |
| Concerns about AA1000 | 10 | 77% |
| Companies influence decision on selecting guideline | 8 | 62% |
| Best to combine both guidelines | 4 | 31% |
| Not using either ISAE3000 or AA1000 | 2 | 15% |
| Independence | | |
| Important to be independent | 13 | 100% |
| Utilise a system for checking independence | 9 | 69% |
| Don't assure if involved with company | 8 | 62% |
| Evidence collection | | |
| Interviews with management | 12 | 92% |
| Document reviews | 11 | 85% |
| Site visits | 7 | 54% |
| Challenges in collecting evidence | 12 | 92% |

Both guidelines were acknowledged by all interviewees, to certain degrees, due to various influencing factors. The ISAE3000 is the main sustainability assurance guideline used by Big4 firms as it is produced by their governing body⁴³. As a result, their rules, assumptions and how they operate are enshrined into the guideline. A respondent stated;

⁴³ International Federation of Accountants (IFAC)

‘The reason for that (complying to ISAE3000) is, as a firm of chartered accountants or professional accountants, we are governed by the ISAE and the rules that exists around how to do auditing to the extent that if we issue an audit opinion that is not financial in nature, we have to follow ISAE3000’. (AA3)

Thus all the members of the Big4 firms offering sustainability assurance have a greater generic predisposition to favour the ISAE3000 ahead of any other guideline. It was fascinating when a Big4 respondent with an accountancy background argued that:

‘We use ISEA3000, I don't want to say we don't recognise AA1000 as an assurance standard but we don't feel it is robust enough as an assurance standard on its own (AA1).

However, there are members of the Big4, mainly non-accountants, who primarily favour ISAE3000, but seem to have a higher recognition for AA1000 than accountants and have no problem considering the guideline in their assurance engagements. The Big4 non-accountant interviewees (AA2, AA6, AA4, AA5) clearly expressed willingness to use AA1000, where one of them confirmed that it has been used: ‘...in my last job we did use AA1000, and have been for quite a few companies. I don't know what the other Big3 do but I would have thought that they did’ (AA4). There seems to be an element of expectation for other members of the Big4 to consider aspects of AA1000, even though it is not necessarily the case. A non-accountant Big4 representative briefly described the situation as:

‘In terms of the AA1000, I am not the majority within my team but I am advocating AA1000, I have colleagues who don't think that it is useful and it is unnecessary, so am just laying it on the table that I am not really representing the majority views on this. But personally I think it is important.’ (AA2).

The non-accountant Big4 members (AA2, AA4, AA6, AA5) were explicit in suggesting particular situations and circumstances where the AA1000 is more relevant and outlined that the ISAE3000 plays a major role in assurance. They all argued that the two guidelines are aimed at achieving different objectives. The ISAE3000 is particularly aimed at getting assurance for data⁴⁴ while AA1000 is more focused on materiality⁴⁵. These two viewpoints prompted 31% of respondents, as shown in Table 5.4, to suggest using both guidelines in assurance engagements to get the best possible outcome. One of them claimed that:

‘Talking about the two standards, ISAE3000 is looking at the accuracy and AA1000 is the materiality, which includes completeness as well. So you can bring AA1000 and ISAE3000 together, you identify the material issues to the business, so let us say its safety, carbon emissions and another one. Then you look for those three metrics and you assure them using the ISAE3000 standard, so that for me is the materiality and the kind of accuracy you are using put together. So that is how they work in theory, they kind of come together under those two standards’ (AA4)

⁴⁴ Data accuracy

⁴⁵ Data rightness

The other non-accountant Big4 interviewee echoed similar opinion on the issue by suggesting that:

‘For data assurance, that is ISAE3000, first thing is to choose the data that is more robust to know what can go through with assurance. Second is to choose data that is important in the industry for data assurance. So we try to focus more on the type of indicators that are necessary and important within that field. In terms of AA1000, it is a different method because if you choose that assurance standard, it will require you to choose your most material issues to go for assurance, so it is totally a different play. However, if it were my decision, I will make sure that all companies are opting for both AA1000 and ISAE3000, I think the combination of these two standards brings out the best assurance and the best report and for me it is the most credible as well’ (AA2).

The views of non-Big4 interviewees on assurance guidelines are quite different from that of Big4 respondents as expected. This group of respondents is generally less committed to either guideline and their views vary across individuals, but interestingly, they share similar elements across the board. A few interviewees (15%; CA1 and CA2) claimed that they don’t use any assurance guideline even though one of them (CA1) argued about having a ‘real interest in data accuracy’, who suggested:

‘We don't have a preferred set standard. One of the reasons why we don't have a set standard goes back to what I've said before about having a bespoke approach. We do have a process, yeah, we have an internal process of how the assurance works in practice’ (CA1)

This shows that while guidelines are important, it appears that not every assurance provider view it as necessary to be used in every assurance engagement. However, these were the only interviewees with such a view about guidelines. All other non-Big4 interviewees (CA4, CA3, CA2, CA5, CA6, CA7) are, at least, in compliance with AA1000. The view of non-Big4 representative interviewees in relation to using ISAE3000 is different, as expected. One interviewee claimed that they don't use the ISAE3000 for the following reason:

‘We are not accountants so we are limited in our knowledge of the principles and we don't believe that it should be something that we should be offering.’ (CA3)

Other non-Big4 respondents use the ISAE3000 only ‘occasionally’ (CA4) or ‘less frequently’ (CA7) when discharging assurance. Only one respondent demonstrated how their firm developed an internal framework composed of elements with the basic combination of both AA1000 and ISAE3000 (CA6). The idea behind the methodology is to create a balance by ensuring elements of both guidelines are reflected in every assurance engagement they undertake. While some non-Big4 respondents (CA1, CA3) also mentioned about having an internally developed methodology for

assurance, only this interviewee (CA6) briefly discussed how it was developed and the idea behind methodology.

Based on the aggregated views of all the interviewees, AA1000 is the more commonly used guideline given that some Big4 firms and most non-Big4 firms apply it in their assurance engagements. This could be as a result of some apparent features possessed by the AA1000, which is evident in its practical implementation. However, only 23% (Table 5.4) of interviewees view the AA1000 as the preferred assurance guideline. Interviewees argued that assurance providers have a 'bigger playing field when using the AA1000' (AA2); in that you have the opportunity to investigate various issues using different methods and sources during engagements. An interviewee stated that:

'The AA1000 allows us to take different issues into consideration, so we can make comment on anything and we can argue. For ISAE3000, we can't, we can only look at the data we are assuring within the scope that was agreed on. So it is a very big difference in terms of how we look at the reports' (AA2)

In contrast to the ISAE3000, interviewees, especially non-Big4 members, view it as too narrow (CA4, CA5) as it limits the extent to which assurance providers can argue, challenge and recommend areas for improvement (CA6). The broader approach of AA1000 enables a thorough and active role for assurance providers in materiality analysis with external stakeholders taking the center stage. This includes, identifying materiality issues, uncovering what has been disclosed about the issues and how

companies have responded or are responding to key materiality issues. Whereas ISAE3000 advocates (AA1) believe that materiality assessment is primarily the responsibility management.

In terms of whether the ideas of ISAE3000 and AA1000 can possibly be aligned by the guidelines themselves, interviewees were quite confident that it would not happen. The ISAE3000 is primarily based on assumptions of 'financial accounting ideology' (AA2). Thus the main monitoring and regulating mechanism is principally related to data assurance because the risk associated with data assurance is well understood and can be managed more effectively (AA1). The AA1000 is very qualitative and financial accounting seems to withdraw from very qualitative and narrative content because there is higher level of risk associated with it (AA4). Also qualitative issues are much more difficult to formalize and standardise (CA6, AA2).

While the AA1000 attempt to recognise more sustainability disclosed information for assurance, the guideline is not without its considerable drawbacks. Thus Table 5.4 shows that 77% of interviewees expressed concerns about the AA1000 guideline. The AA1000 is chiefly perceived as an approach that requires a lot of work and effort due to the breath of issues that can be considered. The amount of work and rigour that goes into carrying out a proper assurance based on AA1000 guideline is substantial. One interviewee stated that an AA1000 assurance is at least double the work because 'aside from just verifying data, you are also challenging them (companies) on the balance and transparency of their reporting' (AA5). These processes require time and considering all

assurance engagements have a timeframe as well as being mostly discharged during the 'busy period' (AA2), it becomes less of an attractive and realistic option.

With more investigation to carry out and evidence to gather from different sources, the cost of an AA1000 assurance is notably higher. Meeting the requirements of the AA1000 guideline demands the commitment of additional cost and resources than the ISAE3000 approach. The 'bigger playing field' constitutes costs that companies are not always willing to commit for the purpose of sustainability reporting assurance engagements.

There are also concerns about developments associated with the AA1000 guideline. While both guidelines are open to continuous improvements, the AA1000 attempts to deal with far more issues based on its wider framework. But there is yet to be any significant development in the guideline for a reasonable number of years now. In contrast to ISAE3000, the introduction of the ISAE3410 specifically for Greenhouse Gas assurance (AA1) is an indication of the improvement associated with ISAE3000.

The growing concerns around the AA1000 were highlighted by an interviewee who claimed that the AA1000 'has lost its profile and therefore organizations are not very sure about it because AccountAbility itself have had a couple of issues over the past couple of years' (CA7). Another interviewee shared a similar view by suggesting that:

‘The difficulty I think is the status of AA1000 currently because I am not sure if more and more companies will take on AA1000 given what happened with the organization (AccountAbility) itself. When I started working as an assurance provider, it was almost an even split between AA1000 and ISAE3000 and even after that, we did a lot of assurance engagements that combined the two, which I think is the perfect way to go forward. However, because AccountAbility itself lost its status due to the management changes and problems they had. I don't think that many companies, unfortunately, will want to get assurance based on AA1000 and this has to do with the fact that AccountAbility is not viewed now as it previously was anymore’ (AA2).

For the AA1000 guideline to effectively compete in the sustainability reporting assurance market, it is important for AccountAbility to ensure the presence of improvements over time. The improvements serve as a way of demonstrating that occurrences in the market based on issues and challenges faced by companies, assurance providers and stakeholders are being considered and incorporated into latest guidelines.

Given the differences in approach of the guidelines, assurance providers can have an idea of the particular guideline to use based on the initial scope outlined by reporting companies. This suggests that assurance providers do not necessarily always decide on the guideline to be used for assurance engagements. 85% of respondents indicated that reporting companies influence the application of assurance guidelines, where many

of them associated the decision in relation to scope of assurance. For a non-Big4 assurance provider:

‘The assurance guideline is usually decided on by the client and if they are not sure, we will discuss with them to understand what they want from the independent assurance’ (CA5)

While a Big4 assurance provider argued that:

‘At the end of the day, they decide what principles to use and what the process will entail. So if they choose AA1000, that is a straightforward thing, this gives the assurance provider more room to give advice and look at things, it is of a wider scope. While if they choose ISAE3000, they will have to choose what indicators they want to get assured’. (AA2)

However as with the scope of assurance, interviewees were keen to state that they give advice on what they think is the best guideline to use. The discussion between assurance providers and reporting companies ends up with an agreement on the most suitable guideline to be used. However, part of choosing an assurance guideline from reporting companies perspective might influence assurance providers approach to adopt for assurance engagements in the first place. Big4 firms are more likely to use the ISAE3000 while non-Big4 firms have a greater inclination to apply AA1000AS.

5.5.2 Independence of Assurance Providers

The ISAE3000 and AA1000 assurance guidelines share some similar elements; a key one is the explicit declaration of being independent from the party responsible for producing the report. The idea of independence is a popular feature across all forms of assurance engagements, and has featured heavily within the sustainability assurance literature (Perego and Kolk, 2012; Deegan et. al, 2006; O’ Dwyer and Owen, 2007; Mock et. al, 2007; Ball et. al, 2000, Smith et. al, 2011; Power, 1991). An examination of sustainability reports of FTSE350 companies (in Chapter 4) with assurance statements shows that 82% of them provided details of assurance provider’s independence. The independence serves to demonstrate that assurance providers are responsible for assurance engagements and its conclusion as an independent third party.

As expected, Table 5.4 shows that 100% of interviewees are of the opinion that independence is of high importance in every assurance engagement. Interviewees used words like ‘vital’ (CA2), ‘incredibly important’ (AA1), ‘we take it (independence) very seriously’ (CA7), ‘absolutely essential’ (CA6), and ‘crucial’ (CA5) to describe their opinion about independence of assurance providers in assurance engagements. Particular interviewees whose firms operate internationally and for many decades argued that the foundation of their success and current renowned brand image is based on operating independently from their clients.

Assurance providers should have procedures in place to effectively ensure their independence as Table 5.4 shows that 69% of interviewees

confirmed that their respective firms have systems and processes for checking and screening every individual before being included in any assurance project. However, the implemented systems for ensuring independence vary across assurance firms and are largely internal. A common system, particularly among Big4 firms is a 'centralized database' (AA5, AA6, AA4, AA2, AA1, AA3) for checking independence status of employees towards giving clearance to participate in assurance engagements based on the client company.

Also, assurance providers are constantly encouraged to declare and update certain details about themselves including declaration of assets (AA4, AA2, CA1), declaration of assurance work undertaken in recent years (CA7, AA4) and declaration of relationships and connections (AA5, CA2, CA6, AA6, AA2). The declaration enables the 'independence team' (AA4, AA2) to examine the position of every member within the assurance provision team as a way of eliminating any chances of 'conflict of interest' (CA2).

A key aspect of the conflict of interest is that assurance providers do not have prior involvement in producing the assured material. This position was confirmed by 62% of respondents (Table 5.4) as one of them argued that:

'So any verifiers will not do any other work for that organization'
(CA5)

Another interviewee argued that:

‘Our main things is, as a general principle, if we do assurance, we don't do anything else’ (CA1)

The views above suggests the position that assurance providers should not in any way be involved in assurance if they have played any role in producing the report. A more specific view is that:

‘We would not find ourselves in a position where we are writing a sustainability report and also assuring that report because clearly that really is a no-no in terms of independence’ (AA1)

This position directly relates to not being an assurance provider if one is involved in writing the sustainability report. However, sustainability professionals could be involved in advising reporting companies on sustainability issues which may be reflected in the company’s sustainability report. As a result, an interviewee claimed:

‘If I advise about specific things, I would not be able to assure’ (AA2)

But interestingly, not all interviewees hold the view that advising companies on sustainability issues interferes with the ability of an assurance provider to be independent while assuring the same report:

‘Q: If you offer advice on a company’s sustainability report or process for a year, can you still assure their sustainability report?’

A: Yes, because we are not making decisions, there are various risks that we know such as not making management decisions, you can't take control, basically there are various things that we know we can't do. But telling someone how they can improve their sustainability report does not have any impact on our independence and giving them recommendations on how to improve the data is part of the assurance services. It makes the assurance easier at the end of the day' (AA6).

This view is based on the position that advisory roles are not ultimately considered as management decisions and for as long as an independent auditor is not performing any function of management; independence is not compromised, as argued by another interviewee (AA3). The position of independence requires much clarity as a uniform perspective of assurance providers will go a long way in solidifying such an important element of the practice. Being independent enables assurance providers to take an outside view of sustainability reports through a careful examination of its content. One of the key aspects of examining content of sustainability reports is the availability of evidence.

5.5.3 Evidence Collection

The consideration of adequate evidence to support claims and assertions in disclosed sustainability reports is a valuable component of assurance engagements. The ISAE3000 and AA1000 guidelines documents contain specific details about the importance of evidence in assurance

engagements. The role of evidence featured heavily in studies that examined assurance statements (Manetti and Toccafondi, 2012; Deegan et. al, 2006; Mock et. al, 2007; Ball et. al, 2000). Different types of evidence could be utilised in assurance, depending on particular issues being investigated. Therefore, it is imperative for assurance providers to obtain evidence that is consistent with areas they are assuring. The views of assurance providers are important in understanding more about the type of evidence used and their methods of collection, an issue that has not been well examined especially using such an approach.

Responses from all interviewees indicate evidence collection is an integral part of sustainability reporting assurance. The planning of obtaining assurance evidence is crucial and should be done before the actual engagement starts (CA5, CA7). This enables assurance providers to think about the type of evidence they require for every issue being assured, the availability of the evidence and the location of the evidence. The consideration of these elements gives the opportunity to effectively plan toward obtaining the most appropriate available evidence within the engagement's agreed upon timeframe.

A common approach of obtaining assurance evidence is interviewing management or data owner, which was confirmed by 92% of interviewees (Table 5.4). This seem to be one of the first effort by assurance providers to have a general understanding of companies internal views about their sustainability issues and how consistent these views are with content of their sustainability reports (AA5, CA6, AA6). However, interviewees (AA6,

AA4, AA2, AA3) do not view interviewing management as one of the most significant piece of assurance evidence that could be obtained.

The type of evidence assurance providers prefers the most are documents as suggested by 85% of interviewees. Document reviews allow for a more extensive examination of claims in reports. Another method for collecting assurance evidence is through site visits as indicated by 54% of the interviewees. Site visits are considered as a good mechanism for experiencing how companies' policies and procedures are practically implemented on-site and in the daily roles of employees (CA2).

The majority of interviewees (77%) supported the idea of using a combination of evidence collection methods, as no single method is considered the best approach for collecting assurance evidence. Thus, corroborating assurance evidence on every issue is a common recommendation across respondents. Assurance providers have to be confident about their conclusion, which is mainly based on the evidence they have gathered. This is why interviewees argued that numerous sources should be used to generate as much evidence as possible. One of the interviewees argued:

'I think it is insufficient to just review documents without talking to management, interviews with management needs to be supported by documentation or supported by an independent opinion from either somewhere else in the company or an external source. So if we were assuring wastewater quality data, we would look for external laboratory analysis of the wastewater' (CA6).

With the importance of collecting assurance evidence in every engagement, Table 5.4 shows that 92% of assurance providers face different challenges during this process. The most reoccurring challenge expressed by most interviewees (69%) is lack of proper evidence. There could be various reasons why assurance providers find it difficult to obtain the required evidence they desire. In some situations, the data provided by companies is not consistent with details in sustainability reports (CA6, AA3, CA3, CA2, CA5) or is of a 'poor quality' (AA6). In other situations, the data owners are not available (e.g. on holidays) during the assurance engagement (AA4, AA2), while there are cases whereby the data is just not available (AA2, CA3, AA3, CA7, AA1, CA2). A combination of these types of issues makes it challenging for assurance providers to establish an adequate audit trail, as claimed by an interviewee.

'Lack of audit trail is a situation I encounter quite a lot, they (companies) can't provide documentation at all because they just have not kept it. Information scattered all across the business, there is no procedure to actually compile everything at group level. That makes it very difficult to actually do the assurance.' (AA2)

Another common challenge as expressed by interviewees (AA1, AA6, AA3, CA6, CA1) relates to the state of methodologies and measurements used by companies. This is particularly evident in companies with large departments and operating in different locations. Interviewees argue that it is challenging when departments use different estimation, calculation or methodological approaches when deriving their data, even though the

final figure might be correct, it is not easy to consider different calculations for the same of indicator (AA2).

The structure of sustainability reports appears to be an issue of concern to some interviewees (CA6, CA5, AA2) because the evidence needed to verify certain disclosed claims in reports is 'just not possible' (CA7). The overly optimistic nature of some narrative in sustainability reports makes it challenging to obtain the required evidence that is consistent with the disclosure. Also, the changes that occur in drafts of sustainability reports results in huge difficulties for assurance providers (CA1), as adjustments will have to be made that might go against what was initially planned.

However, with all the challenges associated with collecting evidence from the perspective of assurance providers, interviewees (AA2, CA6, AA4) argued that they always generate as much evidence as possible for every indicator. The assurance engagement might take longer or assurance providers might work extra hours but interviewees claim they always find a way out without compromising on the quality of assurance. While using multiple sources of evidence to support claims in reports is a commendable approach, the absence and poor quality of evidence is yet to be convincingly addressed by assurance providers.

In summary, assurance providers can approach assurance engagements using various channels, but some elements appear to be more apparent in assurance statements and have been discussed in contemporary literature. Interviewees recommended the two assurance guidelines - AA1000 and ISAE3000 - with consideration to their respective differences

and similarities. Independence of assurance providers is a key element in both guidelines and also appears to be a crucial requirement from the perspective of all interviewees. Assurance engagements cannot be viewed as complete without the evidence used by assurance providers to make a decision on the data being investigated. The methods used by assurance providers to collect evidence as well as the challenges they face were discussed. There are various sources which assurance providers collect evidence from, one of which could be from external stakeholders, which will be discussed next.

5.6 Stakeholder consideration in Assurance

The issue of stakeholders in sustainability reporting assurance has been discussed in the literature from different angles (Adams and Evans, 2004; Jones and Solomon, 2010; Simnett et. al, 2009; Gray, 2001; O' Dwyer and Owen, 2005; 2007; O' Dwyer, 2011; Manetti, 2011; Boele and Kemp, 2005), but questions remain around the specific roles of assurance providers when it comes to including stakeholders in assurance engagements and assuring stakeholder engagement information. This is important given the variety of ways assurance engagements are discharged based on the empirical evidence already presented above. Theoretical arguments suggest stakeholders are integral to sustainability related issues (Thompson and Bebbington, 2005; Unerman, 2008; Owen et. al, 2001; Cooper, 2005; Adams, 2004; Donaldson and Preston, 1995) as findings in Chapter 4 shows that 90% of FTSE350 companies with assurance statements have at least a section describing their stakeholder engagement practices. However, only 40% of the stakeholder information

was assured. This is contrary to the position of Bebbington et. al. (2007) who argued about the necessity to reinforce mechanisms of sustainability reporting and assurance through enhanced stakeholder engagement to guarantee relevance and materiality of disclosed information. This section discusses assurance provider's views regarding inclusion of stakeholders in assurance engagements and issues around assuring stakeholder engagement information.

Practical consideration of external stakeholders in the process of assuring sustainability reports is a highly regarded practice according to all interviewees. The involvement of external stakeholders was endorsed by 100% of interviewees as shown in Table 5.5 below. Although, it appears that the approach assurance providers utilise to effectively demonstrate that attention was given to stakeholders varies quite considerably. From a broad view, the involvement and consideration of stakeholders in assurance can be classified as direct (contact with external stakeholders) and indirect (getting access to documents or evidence that primarily originated from stakeholders).

Table 5.5: Interviewees views on external stakeholder consideration

| Interviewees opinion | Sum of views | Percentage |
|---|---------------------|-------------------|
| External stakeholders should be included in assurance | 13 | 100% |
| Stakeholder engagement disclosure should be assured | 8 | 62% |
| Stakeholder engagement should be integrated into companies strategy, not only for reporting | 12 | 92% |
| Stakeholder engagement procedures of companies needs improvement | 10 | 77% |
| Constraints to assuring stakeholder engagement disclosure | 9 | 69% |

5.6.1 Direct Stakeholder Involvement in Assurance

A large number of interviewees (69%) claimed that they utilise a direct contact approach to involve external stakeholders in assurance engagements. The methods of directly involving stakeholders include: round table discussions (CA6; CA1; CA7), one-on-one discussions (CA1; CA7), observe meetings between companies and their stakeholders (CA1; CA6; AA5). Direct stakeholder involvement is an important way of understanding their views, which might significantly aid the entire assurance processes, but a number of interviewees (54%) specifically warned about the implications of using such an approach. Interviewees (CA1, CA2, AA2) argued that the views of stakeholders are ultimately their personal perspectives and does little to actually verify the accuracy of disclosed information by stating:

‘They (stakeholders) are not commenting on the accuracy level, they are commenting on their perception. It is important that people don't confuse the role of stakeholders. I think you could use stakeholders as part of the materiality process and process of commenting on the report and performance. But I don't think you can say if we have stakeholder views or stakeholder comments on this particular area, that in some way stands on its own and replaces the need to actually have a process of checking that the data itself is correct and that the systems producing that data are robust’ (CA1).

Another issue with direct stakeholder involvement is that of representative views of stakeholders. While there are numerous stakeholders that assurance providers can potentially gain perspectives of companies’ sustainability performance from, interviewees (AA2, AA1, CA2, AA4, CA7, CA1) argue that getting the ‘right stakeholders’ and securing a ‘fair representation’ of views from the stakeholders is a challenge. An interviewee clearly expressed an opinion about direct inclusion of stakeholders in sustainability reporting assurance as: ‘I don't think it is necessarily something that I would have done or considered to be important’ (AA1). While another interviewee stated that ‘I think that it is not worth doing’ (AA6).

5.6.2 Indirect Stakeholder Involvement in Assurance

External stakeholder contribution to assurance through indirect involvement is more common and widely used based on the collective views of interviewees. All interviewees (except CA7) agreed that they

frequently use some kind of indirect stakeholder involvement approach in their assurance. Indirect methods of stakeholder inclusion primarily include: media searches (54%), Internet search (46%), invoices, bills and meter readings (54%), and independent stakeholder reports (77%). Interviewees appear to be more comfortable with indirect stakeholder involvement as it gives more of an opportunity to get hold of 'hard evidence' than having a discussion with a stakeholder (AA6).

Indirect stakeholder involvement in assurance procedures is a good way of corroborating information contained in reports and ideas elicited from conversations towards convincing assurance providers about accuracy of companies' claims. Three interviewees (AA3, AA6, CA6), in particular, were convinced that obtaining physical data from reliable external stakeholders is the 'highest quality' evidence that can be used for assurance. All other interviewees acknowledge the relative importance of indirect stakeholder involvement in assurance. However, one interviewee (CA7) suggested that they primarily review data presented to them by clients and secondarily consider other sources, therefore, they 'don't always go into other sources' if they are satisfied with what has been provided.

There are situations whereby companies do not necessarily have all the accurate data required, this means external sources have to be considered for the assurance provider to be convinced with clients' claims (CA6, CA5, AA2, CA1, AA4). These cases lead to companies having to adjust their sustainability reports as a result of examining external data by assurance providers. But respondents claimed that information adjusted are commonly 'not significant' as they are mostly issues of presentations

because in most cases, the issues have actually been discussed in the reports (CA6, CA5, AA5, CA1).

A number of interviewees (CA5, CA6, AA2) indicated that stakeholder involvement is decided when planning the assurance with reporting companies. Even though respondents insisted that they will always want to involve stakeholders (CA1, CA2, CA4, CA5, AA2, CA6, AA4, AA5). The participation of stakeholder could assist in giving assurance providers a valuable perspective on stakeholder engagements practices of reporting companies. Most assurance providers indicated their willingness to involve stakeholders in assurance but actual assurance statements paint a different picture in that stakeholders are not involved in many engagements.

5.6.3 Assuring Stakeholder Engagement Disclosure

There is an apparent increase in stakeholder engagement information in sustainability reports over the years, where stakeholder engagement is a common area of discussion in the sustainability accounting literature (Unerman et. al, 2007; Adams and Evans, 2004; O' Dwyer and Owen, 2005; Deegan et. al, 2006). The expectation is that stakeholder engagement is an important part of disclosure to the extent of being considered for assurance. As such, 62% of interviewees explicitly supported the notion of assuring stakeholder engagement practices of reporting companies by using terms like 'vital' (CA2), 'very much necessary' (AA2), 'very good to include' (CA6), and 'its a key area' (CA5). Examining stakeholder engagement practices demonstrates to existing

and potential stakeholders that their relationship with corresponding companies is valuable and continuous. Assurance providers play an important role as they professionally and objectively analyze stakeholder engagement practices, which assist companies in improving on such issues (CA6, AA2, AA5, CA5).

The concept of materiality, responsiveness and completeness form a key part of stakeholder engagement assurance as interviewees (CA4, AA3, AA2, AA4, CA6) argue that it enables them not only investigate accuracy of disclosure but also the validity and implications of the performance beyond reporting companies. According to the respondents, the three principles (materiality, responsiveness and completeness) actively assist in demonstrating that sustainability assurance should not be limited to a data accuracy exercise. The qualitative and quantitative nature of sustainability information requires more than checking numbers, hence, more complex mechanisms should be utilised to capture and improve the processes. The AA1000 assurance guideline is broadly known for its focus on the principles of materiality, responsiveness and completeness. Therefore, it came as no surprise that 77% of respondents suggested that stakeholder engagement assurance is dependent on the application of the AA1000AS.

Some interviewees (AA1, AA6, CA3) were not so keen on assuring stakeholder engagement, as it is not part the most important set of issues. The view is that the 'materiality assessment' undertaken already covers all the key aspects around stakeholder engagement and it is commonly an

issue that is sorted between companies and their stakeholders, without the interference of assurance providers. An interviewee argued:

‘...providing a company has done its materiality assessment on stakeholder engagement properly with its stakeholders, you should end up with the right result any way, so there is little need for assurance on this’ (AA1)

A set of interviewees (AA6, CA6, AA4, AA2, AA1, CA7) claimed that assuring stakeholder engagement is a choice made by reporting companies and that affects how it can be understood and improved for assurance purposes. An interviewee expressed skepticism about the nature of data associated with stakeholder engagement practices and disclosure of companies, which might entirely preclude the possibility for undertaking proper assurance. The interviewee argued that when it comes to stakeholder engagement, ‘there is no data, so you are not verifying, therefore, its not assurance in the typical view that everybody has of assurance’ (AA6). However, the same interviewee agreed that finding a way to link stakeholder engagement with overall strategy of companies and involving stakeholders along the process will generate valuable data for assurance.

Other interviewees strongly supported and recommended aligning stakeholder engagement and corporate strategy, according to 92% of the sample. Sustainability reports contains key information that is important to stakeholders and is also expected to be important to companies since they publish the reports. However, a considerable number of interviewees

(AA2, CA1, CA2, CA6, CA7, CA5) outlined situations whereby the external stakeholders they have encountered during assurance engagements share a different perspective about issues discussed in sustainability reports. An interviewee recalled that:

‘We did a session for a client last year, and I think the client was genuinely shocked at the force of the criticisms that the stakeholders articulated about their report’ (CA1).

Another interviewee explained:

‘It was quite an illuminating experience and, in fact, its one of the most interesting debates I have seen so far in stakeholder engagements. An organization was being challenged by a series of academics on their social purpose and I think this particular debate got very uncomfortable, and that was actually our client, but it really made them think about how to approach their businesses’ (CA7).

While these examples are in no way a general occurrence, it is an indication that, at least to some extent, companies do not necessarily consult, communicate or interact effectively with external stakeholders, particularly on issues they value and want to include in their sustainability reports. Bearing this in mind, some interviewees (CA1, AA3, AA2, AA4, CA6) were clearly not impressed with the state of stakeholder engagement application of companies. Where an interviewee stated that

‘there is very little dialogue with stakeholders about strategy and reporting’ (CA1), while another argued:

‘Historically, a lot of the reporting that was done in sustainability reporting space was driven more by the first group of key stakeholders and is very much sort of an outside-in view of reporting, which is a lot of stakeholders telling you stuff they wanted to know about you and then you respond by reporting on that. There is a shift in the last few years and I think its more of an inside-out view, which is the corporate controlling and driving the agenda more around the reporting that it is doing and aligning that into stakeholders. So companies saying these are the areas that are important to me and on that basis I will report on them’. (AA3)

As assurance providers have identified problem areas associated with corporate stakeholder engagement in assurance, Table 5.5 shows that 77% of interviewees hold the view that stakeholder engagement practices of companies need improvement. Assurance can be very helpful in building a robust system of stakeholder engagement, but companies must change their operating approach to accommodate opinion of key stakeholders (AA2, CA4, CA1). Also, interviewees claimed that companies should be treating stakeholder issues more seriously (AA5) and develop a centralized approach to stakeholder engagement practices, data and information (AA2). This will enable companies to easily identify the most important and material engagements and focus more on promoting them.

Concentrating on material stakeholder engagement information makes reporting and subsequent assurance more meaningful. An interviewee argued that if stakeholder engagement disclosure does not seat properly within a business, it creates problems and difficulties during assurance engagements (CA6). Assurance has a role to play in identifying vital stakeholder engagements that are important to both companies and stakeholders as well as highlighting how to improve them.

While stakeholder engagement can be utilised within various operations and projects, for assurance purposes, interviewees suggested that companies need more awareness for its application and effective implementation. The purpose and processes for every stakeholder engagement should be clear to reporting companies and disclosure should be consistent with findings. This is relevant because interviewees (CA6, AA4, AA3) have found that 'stakeholder engagement methodologies are not really robust for assurance' (AA2). Thus there are cases where a slight difference between qualitative stakeholder engagement disclosure and actual data can be found.

In an attempt to ensure a general improved understanding and usage of sustainability assurance, some interviewees (CA1, CA2, CA5, CA6, CA7) expressed their desire for more external stakeholder's active participation by questioning both assurance providers and reporting companies about specific issues in assurance. The more stakeholders understand assurance the more they will see the value of the process. But currently, assurance providers find it challenging to engage stakeholders in assurance for various reasons such as 'not wanting to be seen as endorsing a particular

company or project' (CA1), general lack of interest (CA2, CA1) or in some situations stakeholders feel uncomfortable by the presence of an assurance provider who is observing a round table or session (AA5).

Another challenge of stakeholder engagement in assurance is finding a preferred time for all parties involved to fit in with the assurance engagement. 69% of interviewees agree that the timing of assurance engagements plays a role in complicating assurance providers' ability to undertake proper stakeholder engagement assurance. Stakeholder engagement sessions might not hold during assurance engagement, this prevents the opportunity for assurance providers to observe a session (AA2, CA6, AA4, AA5). Also, the preferred stakeholder an assurance provider wants to involve or get information from might not be available during the assurance engagement (AA4). The additional cost of considering all these stakeholders and including stakeholder engagement element in assurance is also a challenging factor (AA2, AA4, CA7, AA5). Assurance of stakeholder engagement is encouraged amongst assurance providers but the state of stakeholder engagement practices of reporting companies appears to inhibit advancement on this front.

In summary, stakeholder involvement is evidently an increasing feature in recent sustainability assurance engagements. All interviewees acknowledge the importance of external stakeholder involvement in assurance, generally classified into direct and indirect contact with stakeholders. Direct stakeholder involvement is a prominent way of understanding the perspective and views of external stakeholders about a companies' sustainability performance. Indirect involvement is more

popular and commonly used among the two by offering wider range of information from diverse sources. Indirect stakeholder involvement is regarded as the 'highest quality evidence' available for assurance. Assuring stakeholder engagement is not universally accepted as stakeholder involvement in assurance. However, advocates of assuring stakeholder engagement are certain that its contribution can enhance relationship between companies and external stakeholders. The focus of assuring stakeholder engagement is not only on investigating whether information is right but also for the information to have a fair reflection on performance. Also, to make sure it covers issues that are relevant to both reporting companies as well as stakeholders and demonstrate willingness to improve. This additional feature makes some assurance providers' value assuring stakeholder engagements while others prefer the traditional audit approach. The two standpoints might have an influence in how the future of sustainability reporting assurance is perceived.

5.7 The Future of Sustainability Reporting Assurance

With the various opinions about aspects of sustainability reporting assurance, ideas on what the future holds for the practice from assurance providers' perspective seem relevant. Assurance is considered as an emerging practice with many of its components still unclear and not universally accepted. Therefore, it is expected that developments or introduction of ideas and concepts within the practice will aid its continuous use and adoption. Hence, assurance providers are in a good position to offer their opinion on issues to consider for the future of sustainability reporting assurance practices.

While all interviewees expressed their thoughts about the future of assurance, they also highlighted caution associated to their perceived expectations. The certainty of issues they want to be included as part of a robust assurance was generally not apparent based on the position that other structures, beyond their authority and control, need to be in place for their expectations to be realized. Table 5.6 below shows the common issues being considered for the future of assurance from the perspective of assurance providers.

Table 5.6: Interviewees views on the future of sustainability assurance

| Interviewees opinion | Sum of views | Percentage |
|--|---------------------|-------------------|
| Add more indicators for assurance | 11 | 85% |
| More concentration on management letter | 9 | 69% |
| Regulation will help sustainability assurance | 6 | 46% |
| Absence of assurance discussions between assurance providers | 5 | 38% |

Interviewees expressed the desire for future assurance engagements to include as much part of sustainability reports as possible. Table 5.6 shows that 85% of respondents want future assurance engagements to include more indicators than currently allowed. All disclosed information should be the standard of assurance even if they cannot always be included in assurance scope due to limitations such as cost or time availability. The fundamental reason why companies engage in disclosure is because the issues being discussed are important. While some disclosures are more important than others, interviewees (CA7, AA1) argue that sustainability

reports should not ideally disclose information on the same issue for many years without having them assured. Interviewees believe there are important sustainability information that are not being assured, as a result, a 'deeper and wider assurance' is necessary (AA1).

Assuring new sustainability areas will help understand and improve different unexplored issues. An interviewee (AA2) explained how a human resource department of a client changed the way they communicate with other departments within the firm as a result of assurance. Thus, other areas need to be put up for assurance not only for improving how they function but also for assurance providers to develop further understanding on the area towards discharging better engagements in the future. Another interviewee (AA3) described the important role of assurance in understanding impact of activities and argued that ignoring certain indicators in assurance might prevent 'robust assessment' of issues (AA3, CA1). Also, not assuring certain information might limit its exploration thereby prevent the discovery of potential opportunities associated with the subject matter.

The management letter or report is a formal outline of detailed outcome, findings and observations on an assurance engagement. All interviewees acknowledged and supported the importance of the management letter as 69% of them urged companies to pay more attention to the content of management letters. A key part of the management letter is the recommendations that assurance providers present to client companies for considerations on how to improve in those areas. Since the management letter is a confidential document, the recommendations are

commonly unknown to the public, apart from the few included in some assurance statements (AA5). Publishing the management letter prevents companies from being able to silently ignore or cover up issues especially if there are obvious problems (AA3, AA2). However, assurance providers face the high risk of being viewed as extending their 'duty of care beyond management', which can be dangerous and against their usual way of operating (AA2, AA6, AA3, AA1).

Applying recommendations in management letters assist in ensuring subsequent assurance engagements are easier to discharge (CA6, AA2) and also an indication that sustainability is valued within a company (CA1, AA4). The interest of senior management is vital to how a company's sustainability assurance is viewed by assurance providers as a notable number of respondents (CA1, AA1, CA4, AA2, AA4, AA3) claimed they feel more comfortable about assurance procedures and future plans if a top management official is involved in the feedback session, discussions or presentations. With the importance of following assurance recommendations in management letters, interviewees (CA1, AA1, CA4, CA5, AA2, AA4, AA5) argued that companies do not necessarily implement recommendations set out in management letters. For sustainability performance indicators to be effectively assured in the future, companies will benefit from embracing and implementing recommendations in management letters. The lack of willingness by companies to embrace recommendations in the management letters demonstrates absence of intrinsic unified effort towards sustainability issues.

The state of compliance with the management letter might influence the transition from currently common limited to future anticipating reasonable assurance, as interviewees (AA1, CA5, AA2, CA6, AA5) claim companies are not well prepared for reasonable level of assurance. The move from limited to reasonable assurance does not appear to be realized anytime soon because there needs to be a significant improvement in reporting and data management. One of the ways of assisting the improvement, as suggested by some interviewees (CA6, CA5, AA1, AA2, AA4, AA5) is to have a more consistent generally accepted requirements and application of assurance guidelines. A respondent professed:

‘Assurance guidelines are open to interpretation. I know that the way we use the ISAE3000 is not how (name of firm) does. So I think it would be really nice if requirements in assurance guidelines were a little bit more clear and consistent at this point’ (AA6).

While requirements in assurance guidelines should be more specific, improving the guidelines should not affect the voluntary state of assurance. Interviewees (AA2, AA4, CA7, AA3, AA6) were not keen on regulation or making any form of sustainability assurance mandatory at the moment. The state of sustainability disclosure is not robust enough for the implementation of mandatory elements for assurance, as one interviewee argued:

‘I don't think telling companies what to report and assure is the right thing, I think it depends on the company to decide on what

is important, I think they need to be challenging themselves on what is important and to really think more innovatively on how to report that information. There are different stakeholders with different stakeholder needs and these needs changes easily while regulation doesn't, so that should always be brought into consideration' (AA4)

Other issues have to be addressed for the possibility of sustainability assurance to be considered (AA2). As a result, making sustainability assurance mandatory does not appear to be on the horizon any time soon. Interviewees used terms such as 'I think it will take a long time' (AA6), 'at the moment, I don't see assurance being mandatory' (CA7), 'its (regulation of sustainability assurance) not currently an issue for discussion' (AA2). However, having regulation in the field of sustainability assurance is an added advantage to the field and will enhance its general perception. Thus, 46% of interviewees agree that it is important for assurance to be eventually accompanied with regulation. Three interviewees (AA1, AA3, and CA7) suggested that the ongoing discussions on integrated reporting at The International Integrated Reporting Council (IIRC) is the best chance of having any form of regulation in sustainability reporting assurance.

Due to the various issues and ideas about sustainability reporting assurance, some interviewees were asked if there is a platform for discussion and debate about assurance issues between assurance providers. Interestingly, none of the interviewees⁴⁶ (AA4, CA7, AA3, AA5,

⁴⁶ Not all interviewees were asked about assurance providers communication due to time constraint during the interviews

AA6) claimed that they formally engage specifically in assurance discussions with other assurance providers. Four of them (AA4, CA7, AA3, AA5) claimed it would be a good idea to have such discussions with fellow assurance providers to exchange different views and perspectives about the practice. One of them claimed:

‘I don't even know why that hasn't happened yet. I am surprised that it has not happen yet. If someone said to me that we are planning to get all the key assurance providers together to talk about what we can do to change or improve reporting and assurance, I would say brilliant. But may be nobody is taking the initiative, I don't know, may be its just simply no one has’ (AA4).

It seems not all assurance providers are willing to engage with others in discussions about assurance. An interviewee (AA6) responded with ‘no because they (other assurance providers) are our competitors’ in the process of demonstrating no interest in engaging with other assurance providers. The argument is that the firm AA6 represents have spent a long time developing a ‘standard procedure to sustainability assurance’, which they belief is one of the best around the world. Therefore, from a business point of view, they (AA6 and representative firm) are at a disadvantage if their efforts were to be shared with other assurance providers. The absence of communication between assurance providers means there is no recognized platform where assurance providers can discuss and disseminate issues, challenges and concerns affecting the sustainability assurance profession.

In summary, assurance providers' views on the future of sustainability assurance are mainly based on the desire to ensure meaningful continuity and improvement of the practice. The majority of interviewees were in favour of increasing the number of indicators and thereby the amount of assurance work they will conduct in the future. Allowing assurance providers to investigate more issues will assist in producing a deeper and wider understanding of sustainability concepts. Accompanied by every assurance engagement is a management letter, which set out recommendations on how companies can improve their sustainability performance, amongst other things. Assurance providers urged companies to implement assurance provider's recommendations as it forms a key part of improving sustainability reporting and assurance performance. Regulation will generally assist in demonstrating how sustainability assurance has grown but its not on the horizon, as many important issues require clarity and attention. Discussion on issues facing sustainability assurance by different assurance providers is, so far, not evident but most interviewees think it will be good for the future of the practice.

5.8 Findings

This section presents summary findings from assurance provider's views on the important role they play in discharging assurance engagements. Due to the wide range of activities involved in sustainability assurance, the findings are classified into six sections that are consistent with the six supporting research questions in the introduction of the chapter. They are: (1) what is the purpose of sustainability reporting assurance; (2) what

processes are in place to enable and support sustainability reporting assurance; (3) how are the areas of focus for assurance engagements decided; (4) how are the common approaches for assurance perceived by assurance providers; (5) why should stakeholder engagement information be assured and to what extent should stakeholders be involved in assurance; (6) what are the possible issues to consider for the future development of assurance.

First, findings in this study suggest there are strong indications that sustainability reporting assurance brings internal and external benefits to companies and external stakeholders. Edgley et. al. (2010) and O' Dwyer (2011) made similar findings of internal and external advantages emanating from the decision to assure sustainability reports. The added credibility and confidence enjoyed by both management and users remains one of the key advantages of commissioning assurance (Jones and Solomon, 2010; O' Dwyer, 2011). Findings also indicated other benefits of assurance, such as enhancing reputation of companies, and managing relationship with external stakeholders. Assurance also assist in developing a robust system of generating and reporting relevant sustainability information, which is consistent with the position of Edgley et. al. (2010) that assurance improves management and information systems of companies.

Findings show that assurance providers have different ideas about the practice and thus their approach might vary, which leads to concentrating on issues in a dissimilar fashion across assurance engagements. O' Dwyer and Owen (2007) and Simnett et. al. (2009) also found differences in how

assurance providers discharge assurance engagements. As a result, assurance statements end up looking very distinct.

Second, findings strongly suggest that companies need to improve and expand on their sustainability disclosure performance. Particular emphasis was on social information disclosure, which has been found in this study to require significant improvement. Previous studies (Kolk, 2010; Gray, 1993; Lee, 2005; Patten, 1992) have already highlighted the gap between environmental and social disclosure and it appears that the trend is still present. It was observed that there is a general need for companies to improve on their disclosure for assurance to be given an opportunity to do the same. According to findings, assurance providers have the responsibility of promoting assurance because companies (particularly those that have never assured their reports) do not always have good understanding of what it brings to their business.

Third, findings confirm the important role of assurance scope (see O' Dwyer et. al, 2011; Manetti and Toccafondi, 2012; Kamp-Roelands, 2002 and O' Dwyer and Owen, 2005) as it gives assurance engagements a sense of direction on the indicators to examine. Reporting companies select specific issues to assure, as also found by O' Dwyer et. al. (2011). However, in the case of O' Dwyer et. al. (2011), assurance providers 'frowned upon the trend' of companies selecting scope of assurance. In contrast, findings indicate that assurance providers are generally quite relaxed about deciding assurance scope. Although, assurance providers argued about 'challenging' the scope outlined by companies for

materiality purposes⁴⁷. O' Dwyer et. al. (2011) revealed that assurance providers were concerned that assurance engagements are discharged with limited level of assurance and is not what assurance providers expect to be embraced. However, findings in this study suggest limited level of assurance will continue to dominate as the assurance market is not mature enough to handle reasonable assurance.

Findings in this study revealed type of assurance (footnote: The type of assurance is not a straightforward classification as not all assurance providers embrace its existence) classification as data accuracy and data rightness. All assurance providers agree that assurance examines the accuracy of disclosed reports (data accuracy), but not all assurance providers accept that examining whether a report contains the right information (data rightness) should be considered as part of an assurance exercise. Advocates of data accuracy argue that assurance is accepted around the world as a means of checking and confirming the accuracy of reported information. Meanwhile, supporters of data rightness argue that the complex nature of sustainability information in terms of structure, measurement and presentation require its assurance to go beyond data accuracy. The ideas of assurance based on data rightness and data accuracy (footnote: using different terminologies) was discussed in studies by Perego (2009), Deegan et. al. (2006), Blanco and Souto (2009), in which they all noticed that accountants are more likely to adopt data accuracy while data rightness is more favoured by non-accountants. Contrary to this position, findings suggest there are assurance providers of

⁴⁷ The presence of 'assurance journey' assists in making sure that material aspects of disclosure are included in assurance scope over time.

accountancy firms who endorse data rightness. While assurance providers from non-accountancy firms revealed their support for data accuracy assurance.

Fourth, findings reveal the observable similarities between ISAE3000 and data accuracy assurance as well as AA1000 and data rightness assurance, which serves to reinforce the association between assurance type and guidelines. Concerns about the guidelines assisted in highlighting the difference between the two, but AA1000 appear to have attracted more uncertainties across assurance providers. Findings also suggest that reporting companies play a role in choosing assurance guideline to apply.

While assurance provider's independence in assurance engagements is highly regarded (Perego, 2009; Ball et. al, 2000; O' Dwyer and Owen, 2005; Deegan et. al, 2006), findings reveal it requires more clarity. The position of offering advice to companies on their sustainability operations and also assuring their sustainability reports is not consistent across assurance providers. This raises questions regarding advisory roles and assurance, but it does supports the 'consultative approach' tendency of sustainability assurance as discovered by Manetti and Toccafondi (2012).

Findings in this study show that assurance providers view documentary evidence from external sources as the highest quality of evidence that can be used for sustainability assurance. There were strong indications to suggest assurance providers face challenges in obtaining assurance evidence by complaining that the data was of 'poor quality' or inconsistent or not provided. Even though there are challenges in

evidence collection, findings suggest that it does not affect the quality of the engagement as assurance providers claim they always end up getting the evidence they need to reach their desired conclusion.

Fifth, findings show an undivided opinion acknowledging the involvement of external stakeholders in assurance engagement as an important endeavour. This is consistent with the finding by O' Dwyer et. al. (2011) and Manetti and Toccafondi (2012) that stakeholder views are gradually included in sustainability assurance processes. However, majority of the inclusion is through indirect consideration of stakeholders as assurance providers are reluctant to directly involve stakeholders. Assurance providers are not confident that gaining perspectives of stakeholders directly significantly improves assurance engagements, especially with regards to data accuracy assurance.

Findings in this study show that the majority of assurance providers support assurance of stakeholder engagement disclosure as it encourages a more in-depth analysis of sustainability performance. The AA1000 principles of materiality, responsiveness and completeness featured prominently in discussions about stakeholder engagement disclosure assurance. Thus, corroborating the findings from the content analysis⁴⁸, which highlighted similarities between assurance engagements that assured stakeholder engagement and applied the AA1000AS.

Findings also revealed the desire for companies to improve their stakeholder engagement procedures, as current efforts are not very

⁴⁸ See Chapter 4

efficient from the perspective of assurance providers. These concerns are quite consistent with literature that the state of stakeholder engagements of companies is not encouraging (Bebbington et. al. 2007) to the extent that scholars referred to the relationship as stakeholder management (Sloan, 2009; Greenwood, 2007; Owen et. al, 2001). Assurance providers called for companies to embed stakeholder engagement processes within their corporate strategy, which they argue would be more useful for business purposes.

Finally, assurance providers' account demonstrated the willingness for assurance engagements to cover more indicators and issues discussed in sustainability reports. This highlights the presence of a higher decision making authority regarding issues to be assured. The intention of assurance providers for wanting more indicators to assurance seems a promising endeavour to extend the practice across various relevant corporate activities. However, whether increasing the number of indicators will actually enhance the quality of assurance or promote wider accountability remains an open question.

Assurance providers want companies to consider recommendations in the management letters more seriously. Findings indicate a tendency that companies do not necessarily implement recommendations in management letters, thus, improvements in sustainability performance and assurance becomes more challenging. According to assurance providers, imposing regulatory elements on sustainability assurance might help drive the attention of companies, but any form of sustainability assurance regulation does not appear to be forthcoming. Without

regulation, assurance will continue to be discharged with variances as findings in this study confirmed that assurance providers do not formally communicate with each other specifically about issues relating to sustainability assurance.

5.9 Discussions with theoretical inferences

Key theoretical constructs within the sustainability accounting and assurance field are used to discuss the findings in this chapter. As the main theoretical framework of this study, elements within the audit theory are considered in the analysis of findings. Legitimacy, institutional and stakeholder theories also make a contribution based on their valuable attributes, which commonly assist in understanding societal phenomena.

In the audit literature, the argument by Power (1994; 1996; 1991; 1999) suggests audit symbolizes ideals of quality, efficiency, comfort, transparency and accountability. According to assurance providers, assured sustainability reports are considered of a higher quality due to the added credibility of the report. The internal and external value added recognised by all assurance providers in this study suggest the extent of quality audit brings. Power (1997) pointed to the 'feeling of comfort' (p.141) that audit has the capacity to promote. Based on finding from the views of assurance providers in this study, sustainability assurance brings comfort to readers of sustainability reports. The gradual improvement of data collection, aggregation and reporting as well as development of better methodologies to assist management systems are testaments to the important role of auditing in enhancing efficiency of businesses.

The interaction that occurs between assurance providers and reporting companies during assurance engagements exposes companies' core information to a third party is an instance of how companies are consciously attempting to be transparent as a result of the audit process. The discussions and procedures during audit engagements foster transparency but are hardly visible to any external party. While audit possess elements of transparency, Power (1994) was concerned about the problematic nature of the setting in that it promotes more obscurity than transparency. Assurance providers claimed they had access to all of the necessary corporate information they require but findings indicate occasions whereby companies require changes to be made in wordings used in provisional assurance statements. It appears that the level of transparency between companies and assurance providers is limited between the two parties. Power (1994) referred to this situation as a 'displacement of trust from one part of the economic system to another' (p. 6).

Within the audit literature, the accountability model conceived by Power (1991) has a strong emphasis on the role of auditing as a mechanism of 'monitoring' and making actions 'visible' to eliminate the tendencies of 'information asymmetries' and 'moral hazards' for the effective functioning of companies. The evaluation and articulation of a wide range of sustainability issues based on relevance and impact is contestable. As such, the issues covered in assurance end up being selective with considerable level of bias. Findings indicated instances whereby companies pursue specific areas to be assured with defined boundaries.

This is consistent with the 'narrow' view of accounting as argued by Gray (2010) and Gray et. al. (1996) where the focus of companies is on the wellbeing of management instead of society. This attitude prevents companies from being viewed as members of society who promote and advance principles of democratic ideals.

According to Power (1996; 1994; 1997), auditing became perverse as a result of its ability to adapt to various important disciplines and provide a base of substantive change. However, audit has been established as a form of 'image management' tool where assurance providers trade audit quality and cost at the expense of core auditing principles (Power, 1999). The level of influence exerted by companies regarding decisions on issues to assure was discernible. Assurance providers in this study made explicit reference to the role of reporting companies in setting the agenda of assurance engagements, thus the notion of systematically controlling information being assured is supported. The suggestion that users of audit are just a 'mythical reference point' (Humphrey and Owen, 2000; p.36) is strengthened.

The audit knowledge required to effectively carry out sustainability assurance varies based on the type of issues being examined. As a professional conduct, a certain level of skill and ability is needed to conduct an acceptable assurance procedure. Gray (2000) expressed considerable skepticism regarding assurance provider's use of evidence and examination of information systems. A similar trend in findings was observed where assurance providers stated their concern about the state of evidence being provided to them for assurance. For example, assurance

providers mentioned situations whereby evidence they require for a specific issue has not been saved or kept but claimed they concluded the assurance engagement to a satisfactory level. In response to how this is possible, assurance providers argued about working longer and harder but they usually find a way. As subtle as this sounds, not a single respondent indicated that an area subject to assurance was withdrawn due to the lack of evidence. Assurance is not an 'exact science' but the state of dealing with limited or unavailable assurance evidence is unsatisfactory.

The audit discussion by Power (1996) gave particular focus on 'fact building' as a key element to having a stable knowledge base for acceptable audit environments. Experts who are responsible for producing audits have a crucial role in building facts for supporting and sustaining the knowledge base by reaching 'enormous amount of consensus' (p. 311). In the domain of sustainability assurance, findings in this study suggests while there is a general agreement on what assurance offers and aims to achieve, the process of how assurance providers attempt to execute assurance engagements based on the knowledge and approach hardly appears to be a product of consensus. With the differing views of assurance providers, which commonly starts at the 'back stage' (specific assurance procedures, usually internal) of every engagement and materializes in the 'front stage' (final assurance report). The absence of a fundamental consensus particularly in the back stage drives inconsistent audit judgment at individual level, which renders the sustainability assurance environment unstable.

The lack of stability in sustainability assurance has manifested itself by enabling key actors (particularly reporting companies and assurance providers) in the assurance process to influence the practice. As such, the concept of 'capture' is commonly associated with sustainability assurance (Ball et. al, 2000; Power, 1991; Dillard, 2011; Owen et al, 2000; O' Dwyer, 2003; Belal, 2002; Bebbington et. al, 2008). While capture can materialize in different ways, professional capture is more relevant to assurance providers in relation to their roles. But findings show that reporting companies are instrumental in various decisions made in assurance processes, thus supporting the possibility of managerial capture. The argument by Smith et. al. (2011) suggest little is known about how or when capture in assurance actually takes place. The findings in this study indicate assurance providers are more interested with 'commercial imperatives' and as a result, the professional conduct of assurance maintains a narrow focus with specific interests (Power, 1991). Thus, as found in this study, the tendency for assurance providers to agree with content presented to them for assurance by reporting companies, with little or no objection, becomes greater. The common argument from assurance provider's perspectives is that the practice is voluntary and companies are paying for the services. This calls into question the 'challenge' and scrutiny of reporting companies' intentions that all assurance providers in this study claim to put up, particularly in relation to scope of assurance.

The intriguing part of this discovery is the somewhat relaxed feeling of the situation and the absence of any form of willingness to innovate or implement mechanisms that can assist in moving away from capture and

its associated features. This position gives companies the possibility to exert further control over certain key areas in the assurance process. As a result, the interplay between managerial and professional capture (Ball et. al, 2000) makes the situation even more complex in trying to develop a more detailed understanding of the dynamics behind both forces in relation to sustainability assurance.

As key participants and producers of assurance statements, legitimacy of sustainability assurance is highly dependent on assurance providers. Legitimacy theory posits compliance with values and norms as a pluralistic society. Thus, the added value of sustainability assurance should be apparent as justification of the perceived legitimate status of the practice. But given that assurance providers operate as an intermediary between reporting companies and users, both parties have to be convinced about the legitimate state of assurance (O' Dwyer et. al. 2011). As such, all assurance providers in this study were keen on highlighting the benefits of assurance to both corporate management and external users. This could be perceived as an attempt to solidify the legitimate role of assurance providers in the process.

The challenge relates to the focus of assurance when there is substantial evidence in literature by prominent scholars to suggest corporate management and external constituents do not necessarily have the same interests (Gray, 2010; O' Dwyer, 2003; Parker, 2005; Owen et. al, 2000; Adams, 2002; Thompson and Bebbington, 2005; Unerman and Bennett, 2004). While it remains the responsibility of assurance providers to maintain their legitimate status to both companies and external users,

findings indicate assurance providers are more inclined to, first of all, satisfy the interest of company management. However, sustainability assurance itself is a process by which company management use to justify their legitimate status in society (Power, 2003).

Based on the perspective of legitimacy theory, assurance providers need to be cautious in managing their legitimacy as the emerging and voluntary elements of sustainability assurance can promote or damage their status as providers of 'credibility' and 'comfort' to sustainability reports. The position of independence proudly endorsed by all assurance providers is a promising feature that they can use to further advance their legitimacy. However, findings show that the independence expressed from these assurance providers is not completely without questionable traits. The divide between offering assurance and consultancy services is not entirely clear and appears to be mixed across respondents in this study. Independence has a strong foundation in the auditing field but its application in sustainability assurance is not very convincing.

The reputation of assurance providers is an essential part of their legitimacy as professionals in the field. Based on the findings, respondents cherished the several decades they have been recognised as assurance providers for sustainability issues and beyond. Part of the reputation they have gained over the years has understandably assisted in making it easier for companies to award assurance projects to them and for users to relatively raise lesser concerns about the outcome of assurance procedures. Mainly as a result of the established legitimacy gained through being recognised as reputable professionals.

Approaches adopted by assurance providers are instrumental in establishing legitimacy of sustainability assurance even though majority of approaches and exactly how they are implemented occur in the 'back stage' of assurance provision. As Power (1996) carefully discussed how the events of back stage assurance and audit engagements are not fully known to users of the final assurance report. The techniques that are utilised have to be effective for the actual value of the process to be discernible. Findings in this study indicate instances whereby approaches used in assurance are constantly revised and improved for companies to see the value of the effort. While specifically making attempts to demonstrate the value of the efforts to companies might be viewed as narrow, it serves as a way of legitimating assurance methods of operating. Power (2003, p. 383) suggested that 'techniques must be legitimate before they can be efficient'.

However, even the most thought out routines could be loosely coupled to the aims and objectives they intend to serve and assurance, according to Humphrey and Owen (2000), is no different in this respect. What matters and is consistent with legitimacy theory is the perception of what has been done to position sustainability assurance as a reliable and legitimate practice. On the surface, audit reports are generally a symbol of legitimacy (Power, 1996, p. 310). The view of putting companies first as observed in this study promotes the obscurity associated with assurance and raises more questions about the reliability and fundamental effectiveness of the practice. The level of influence between companies and assurance providers appear to significantly outweigh that of users and external

constituents, who are originally meant to be of central focus in sustainability related issues. Thus providing more support to the claim by Power (1999) that assurance and audit does not always uphold values of accountability. Based on the perspectives of assurance providers in this study, legitimacy theory is useful in highlighting and promoting the general value of sustainability assurance, but it is not very helpful in terms of explaining the inconsistencies and challenges associated with key assurance elements such as assurance scope, approach and independence.

With the permeating influence of companies and assurance providers in sustainability assurance, one could argue that there are institutional factors supporting this state of affairs (Greenwood and Suddaby, 2006). At a glance, all assurance providers appear to have implemented similar institutional patterns (institutional theory) in the process of assurance. Issues of independence, use of assurance guidelines and assurance evidence feature quite strongly as key elements from the views of interviewed assurance providers, but findings show that the application of these core assurance elements are significantly irregular.

The institutional theory suggests the presence of processes that help to guarantee survival and increase success possibilities of organizations operating in a given environment (Higgins and Larrinaga, 2014). Findings in this study indicate assurance providers' awareness of certain areas that can possibly improve sustainability assurance (at least in terms of stakeholder accountability). But real steps are yet to be taken in addition of the absence of planning to directly address the inadequacies. Also,

findings show that assurance providers expressed commercial component of offering sustainability assurance as one of the drivers for being involved in the practice. This could serve as a basis for assurance providers to collectively and consistently (but not necessarily agreed upon) allow companies to make judgments over key issues (such as scope of assurance, for instance). As a result, becoming an institutional pattern of occurrence across assurance engagements.

O' Dwyer and Owen (2005) argued that it is hard to 'envisage robust level of assurance' when assurance providers appear to be accountable to their 'paymasters' without any 'countervailing power'. This adds support to the position that assurance providers are not really concerned about the real value of sustainability assurance, to the extent that this has unfortunately become a regular feature of the practice. Based on all the interview findings in this study, the decision over issues to assure is currently institutionalized as a common feature of management's role in the sustainability assurance environment. Even though assurance providers argue that they 'challenge' and 'engage in interesting debates' with companies on assurance issues, more compelling steps should be taken in order to convince the public that sustainability assurance is a core concept of 'accountability' (Gray et. al. 1996) not an 'image management' tool (Power, 1999; Urzola, 2011).

As consistent within discussions in the institutional theory, the views of assurance providers reflect identified institutional patterns that can be associated with isomorphism. A pattern of 'normative isomorphism' (Deegan and Unerman, 2011) was found in this study. Since sustainability

assurance is voluntary, the strongest feature of the practice lies within the values and norms that exist in an operating environment. The normative isomorphic conception suggests and promotes following perceived expectations that are the right practices to adopt (Higgins and Larrinaga, 2014). Findings show the insistence on the application of assurance guidelines as part of assurance processes is generally viewed as a necessity. All interviewed accountant assurance providers in this study argued that the application of the ISAE3000 assurance guideline is a must, thus perceived as a norm to adopt the guideline, which possesses certain qualities of normative isomorphism (Deegan, 2014). The independence of assurance providers from the views of accountant assurance providers was explicitly considered as a must, again being a normative practice in assurance processes. However, even though all accountant assurance providers significantly value independence in assurance, findings show that its implementation remains inconsistent. The institutional theory contributed to the understanding of assurance providers' views on the similarities of the key features in sustainability assurance, but the theory is less relevant for explaining the various dissimilar perspectives of interviewees regarding individual features of the practice.

The consideration of stakeholders is relevant in terms of assurance providers' relationship with their stakeholders and the assessment of stakeholder-centered sustainability assurance. The key relationships assurance providers should be concerned with are reporting companies and users of assurance statements since they fundamentally form the sustainability assurance market. According to the managerial branch of the stakeholder theory, organizations examine their different stakeholders

and primarily address the needs of those stakeholders who are critical to their survival (Deegan and Unerman, 2011; Mitchell et. al. 1997). Consistent with findings in this study, assurance providers are significantly more responsive to the demands of their client companies than users of their assurance statements because companies have a greater tendency to affect their financial position. Users of assurance statements are also important but findings indicate that assurance providers are less determined or in some cases argue that stakeholders do not read sustainability reports.

The ethical branch of stakeholder theory has more in common with the attempt to ensure a stakeholder-centered sustainability assurance (as suggested by O' Dwyer and Owen 2007). Findings from the perspectives of assurance providers' reveal that while stakeholders are viewed as important element of sustainability assurance, the desire for stakeholders to be a central component in the practice as suggested by Adams and Evans (2004) is not happening. The recommendation for stakeholders to be involved in the process of choosing assurance providers does not appear to be a welcoming feature. Assurance providers argued about how companies do not have an effective system for interacting with their stakeholders, for which the outcome is usually reflected in sustainability reports. As such, assurance providers claim if companies do not rigorously associate with their stakeholders, assurance to provide the best outcome for stakeholders is not possible.

According to Power (1994), sustainability assurance should serve as a conduit through which stakeholders are meaningfully represented and

heard. This view is also consistent with the ethical branch of the stakeholder theory and if accurately applied in sustainability assurance, stakeholders are expected to have an important role to play. Thus, the involvement of stakeholders in assurance, which can be considered as a 'stakeholder voice', was recommended by O' Dwyer and Owen (2007), Edgley et. al. (2010), Adams and Evans (2004) and AccountAbility (2003). While findings from assurance providers acknowledge this, they have generally maintained indirect involvement with stakeholders in assurance. Although, it appears that assurance providers consider indirect stakeholder involvement through relevant documentation as the 'highest quality evidence' that can be used for assurance.

Ideally, based on the 'voices of stakeholders', direct contact seems to be a way of eliciting current and updated representations of stakeholder views. As Freeman (1984), Friedman and Miles (2002) and Roberts (1992) all argued about the constantly changing nature of stakeholder demands and needs, it is expected that direct contact with stakeholders will prove to be more accurate in terms of their contemporary demands. However, findings show that assurance providers generally have mixed views regarding direct stakeholder involvement in assurance; they raised issues such as lack of enough time, representation of the stakeholders, and discomfort expressed by stakeholders especially when observing meetings and roundtables. Most of these constraints could be mitigated by proper collaborative efforts between companies and assurance providers as well as clarity on the exact aim of assurance engagements. Based on the views of assurance providers, the stakeholder theory is helpful for explaining the consideration of stakeholders in sustainability assurance, however the

relevance of the theory appears to be limited with reference to the decisions made regarding every assurance engagement.

5.10 Conclusion

In answering the second research question that relates to the role of assurance providers in sustainability reporting assurance and its impact on the variances in assurance statements. Findings suggests assurance providers play a key role in promoting the associated valued added of sustainability assurance and encouraging companies' continuous commitment to the practice. The value added of commissioning sustainability assurance is experienced internally (management) and externally (users), but evidence indicates internal management enjoys the major share of the benefits. Findings also confirms the presence of 'managerial control' over sustainability assurance (Jones and Solomon, 2010; Urzola, 2011; Ball et. al, 2000), with the impact affecting other key aspects of the exercise, thus, calling into question the entire procedure and its approaches. On this basis, the view of Power (1997) that more assurance will not necessarily signify better accountability is justified.

From the collective views of assurance providers, sustainability assurance does not appear to have a universal focus. Evidence shows that assurance providers have different perspectives of assurance, broadly classified as either a data accuracy or data rightness exercise. This interesting finding question the fundamentals of the practice, even as an emerging exercise. One would expect a professional conduct would have an established universally accepted focus. More clarity is needed to address the various

differences in opinion about assurance. The role of offering assurance and advisory services also need further delineation as not all assurance providers are on the same page on this issue. Another finding that has probably exacerbated the situation is the apparent lack of communication between assurance providers. A culmination of these factors has resulted in the inconsistencies viewed in assurance statements; perhaps a form of regulation might assist in at least having clarity for a more meaningful assurance.

A central element of sustainability assurance is to assist in holding powerful subjects in society accountable to their stakeholders, which also serves as a proponent of the 'social accounting project' (Dillard, 2011; Gray et. al, 1996). The analysis of O' Dwyer and Owen (2005) revealed improbable chances of attaining such goals given the setting. Meanwhile, more recent evidence suggests stakeholder inclusivity in sustainability assurance is 'no longer rare or exceptional' (Edgley et. al, 2010, p. 553) and is growing (O' Dwyer et. al, 2011; Manetti and Toccafondi, 2012). Evidence in this study reflects a combination both findings, in that while stakeholder involvement and consideration is more common in current sustainability assurance, this by no means suggests stakeholders now have the ability or power to seriously hold companies to account. Not a single assurance provider argued for stakeholders to have more direct power/influence in assurance. This is consistent with the perspective of Urzola (2011) who discovered that reporting companies are not in favour of 'delegating power to stakeholders through the practice of sustainability assurance' and are thus 'unable to demand substantive change' (p.260). On this basis, one might argue that even though stakeholders are now

commonly involved in assurance, the situation has not significantly changed (towards accountability) from the position of the findings by O'Dwyer and Owen in 2005. These are the type of instances that prompted Power's (1999) assertion on the presence of 'downward' (p. 127) accountability and its negative impact on the field.

The next chapter will focus on the perspectives of different stakeholder groups on the state of sustainability assurance

Chapter Six: Stakeholder views on sustainability assurance

6.1 Introduction

This chapter focuses on the third research question as detailed in Chapter 3, which explores the views and perspectives of external stakeholders about the state of sustainability reporting assurance. It has been well established that external stakeholders form a key part of sustainability assurance (O' Dwyer et. al, 2011; Adams and Evans, 2004; Power, 2003; Manetti and Toccafondi, 2012; O' Dwyer and Owen, 2007; Bebbington et. al, 2007), but very little is actually known about the opinion of stakeholders on the practice. The direct perspectives of corporate management (Jones and Solomon, 2010) and assurance providers (Edgley et. al, 2010; O' Dwyer et. al, 2011) are slightly more accounted for in the literature, whereas research on the views of stakeholders appears to be scarce. So far, only the (related) studies by Owen et. al. (2009) and Urzola (2011) provided any substantive insights into stakeholder perspectives on sustainability assurance.

To develop an understanding into the stakeholder's opinion on sustainability assurance, supporting research questions were outlined to ensure consistent focus on every area of discussion. Due to the wide range of sustainability assurance issues stakeholders discussed during the interviews, it seems pertinent to narrow down the direction of the

empirical findings to key focus areas of the study. Hence, this chapter specifically focuses on answering the following supporting research questions:

SRQ3a: What values are associated with assuring sustainability reports?

SRQ3b: What are stakeholders' key areas of relevance regarding the state of sustainability assurance?

SRQ3c: How could the practice of sustainability assurance be improved?

The structure of this chapter is as follows: the next section presents the findings on stakeholder views about the value of sustainability assurance (SRQ3a). Section three deals with important areas and issues of assurance based on the account of stakeholders (SRQ3b). Section four presents discussions on findings relating to SRQ3c where assurance areas of improvements from the views of stakeholders are discussed. Section five highlights a summary of the key findings and considers them with reference to extant literature followed by discussions relating to key constructs of audit, legitimacy and stakeholder theories in section six. The final section focuses on the concluding remarks of the chapter.

6.2 The value of Assuring Sustainability Reports (SRQ3a)

As sustainability assurance cannot be considered to have served its purpose if stakeholders do not acknowledge its importance, there is an expectation that stakeholders view assurance as a valuable practice. The

views of stakeholders about the value of sustainability assurance vary given their experience and knowledge about the practice as well as the influence of their respective backgrounds. Generally, all the interviewed stakeholders in this study agreed that there is an additional value associated with the practice of assuring sustainability reports. According to stakeholders, the values are manifested in different forms as indicated in Table 6.1 below.

Table 6.1 Stakeholder views on the value of sustainability assurance

| Opinions | Number of views | Percentage |
|---|------------------------|-------------------|
| Generally adds credibility | 9 | 81% |
| Demonstrates willingness of being transparent | 10 | 91% |
| Sustainability is considered a serious issue | 6 | 54% |
| Makes report more accurate | 7 | 64% |
| Promotes confidence | 6 | 54% |
| Caveats: | | |
| Presence of assurance statement does not mean key areas were considered | 10 | 91% |
| Value depends on disclosure | 9 | 81% |
| Should be directed at stakeholders | 6 | 54% |
| Real value achieved over time | 6 | 54% |
| Assurance reduces errors but is not error free | 4 | 36% |

The majority of interviewees (81%) argued that the presence of an assurance statement increases the ‘credibility’ of a sustainability report. This perspective is based on the acknowledgement of the assurance process that suggests a professional third party has vetted the content of a report and its underlying procedures. Assurance assists in allaying

‘concerns from outside organizations’ (S6) regarding their conducts. The credibility is viewed as essential since it reassures users that content of reports are consistent with management operations. Thus, a certain level of ‘trust’ (S2, S3, S6, S9, S10) is reportedly established to guard against the possibility of ‘green washing’ (S9). The same interviewee (S9) stressed the importance of assurance as a relevant component of ‘balancing and understanding’ sustainability reports due to its vast nature.

Also, the process of assurance convinces stakeholders that issues involved are accurate and correct as suggested by 64% of interviewees. This is based on the understanding that ‘someone has looked, questioned and challenged the process’ (S3) to ensure mistakes have been checked. With the limitations associated with sustainability reporting where companies have the tendency to primarily discuss their ‘hero projects’ (S1), assurance serves the role of making sure statements and assertions are accurately presented. Respondents claim that users are more ‘comfortable’ (S2, S3, S8, S9) knowing a sustainability report has gone through such a process and are more likely to believe what it is saying. The comfort level enables users to easily make decisions based on the assured information.

The interviewees recognise that companies are engaged in numerous forms of activities and are more likely to commit time and resources to the most important ones. Hence, assuring sustainability reports is an indication by companies to demonstrate how serious they consider the issue. Table 6.1 shows 54% of respondents concur with the view that assurance is a sign that companies take sustainability seriously, as one of them suggested:

‘I think if you see an assurance statement you get a sense that the organisation is taking the agenda seriously. It shows you that actually they have prepared and put a budget against the assurance, so therefore that also encourages you to believe what they are saying and get a sense of commitment to the agenda’ (S10).

The display of seriousness through assurance plays a major role in promoting the confidence of report users as expressed by 54% of interviewees. The confidence stems from the perception that sustainability reporting and assurance has been ‘done in a thorough and professional way’ (S6). Also it is an indication that the company’s procedures are effective enough to undergo an assurance exercise. The data in a sustainability report is less likely to be challenged, as users are more confident with its accompanying assertions knowing it has gone through an assurance engagement.

The involvement of an independent party to scrutinise a sustainability report is an attempt indicating management willingness towards transparency. A large majority of respondents (91%) are advocates to the idea that assurance is a feasible mechanism for transparency, as it ‘provides a window into what a business is doing’ (S1). Transparency shows companies are open about their activities, but it also gives users the opportunity to understand more about practices that appear to be important to companies and those that are functioning properly. One interviewee (S9) was convinced that transparency is ‘generally needed’ from companies and assurance is one way of showing that ‘hidden

agendas' (S10) within sustainability could be alleviated. The enhanced level of transparency from a sustainability assurance procedure ultimately contributes to improving the quality of the report (S7).

Assurance statements appear to have a notable influence on users' perception of sustainability reports. As such, 72% of interviewees agreed that they view sustainability reports differently if accompanied with an assurance statement; although, the nature of the difference varies quite considerably across respondents. Nonetheless, the presence of assurance influences the way users view sustainability reports. Assurance statements allow sustainability reports to be viewed more 'favourably' due to its added quality, according to interviewee S7. The 'likelihood of errors is higher' (S3) if a report is not subject to assurance, hence the report should be read with more care and caution (S2). An interviewee suggested that companies should offer explanations for not assuring their reports due to the uncertainty of an assurance free report (S9). Meanwhile, two respondents (S5; S11) argued that while having an assurance statement generally improves a report, the degree of the improvement cannot be ascertained simply by knowing that an assurance engagement was discharged on a report.

6.2.1 Caveats on the value of Sustainability Assurance

While the above discussions have detailed external stakeholders' perception on the value of sustainability assurance, there are aspects that must be considered for the value to be of actual benefit. All interviewees expressed warnings associated with sustainability assurance. Given the

wide range of sustainability disclosure by companies, where assurance is commonly not based on the whole content of reports, Table 6.1 shows that 91% of respondents are cautious that having an assurance statement does not mean key areas were considered. The perspective of interviewees is that the relevance of assurance is based on the inclusion of issues that are deemed valuable to stakeholder groups. Since stakeholders have different needs, it is thus unlikely for assurance to satisfy the needs of different stakeholders. There is little value of assurance to stakeholders whose relevant information has not been assured. One interviewee (S2) suggested that users of assurance statements should be 'careful because people often get excited that a report has been assured but the actual nuts and bolts' of the statement could prove otherwise.

Another potential threat to the value of sustainability assurance is the disclosure undertaken by companies in the first place. 81% of interviewees argued that the value of assurance depends on its associated sustainability disclosure. Three interviewees (S5; S7; S8) were adamant that unless assurance satisfies that the information in a report is 'right' and the 'right information' is disclosed, its goal cannot be considered to have been achieved. A report that facilitates an assurance engagement has to be up to 'standard' (S1) and should possess all features of supporting the exercise. Assurance does not have the capacity to represent a bad sustainability report in a good light as suggested by an interviewee (S8), who also claimed:

'So I don't see an assurance statement or an opinion in a report and automatically say okay this means that I can have faith in this report

or that this data is being managed appropriately. I still want to be able to see that demonstrated in the report. The opinion for me is just in some way nice to have and just provides a bit of more reassurance. If I look through a report and I don't get that level of comfort from reviewing the report that this company actually understands what they are actually talking about and are managing it properly, then I doubt the assurance statement will help me' (S8).

To enhance assurance, the emphasis for companies should be more on improving the quality of disclosed information. Three interviewees questioned the nature of information companies disclose in their reports by describing it as 'very far away from the standard I would like' (S11) 'not ideal' (S8) and 'be mindful of' (S3) in suggesting more attention is needed from companies. The questionable state of sustainability data quality in addition to the wide range of locations where companies are operating form a challenging environment for accurate management of data (S3). While checking errors is an essential part of assurance, 36% of respondents are of the opinion that assurance reduces errors in sustainability reports to an acceptable level. The respondents were not convinced that having an entirely error free sustainability report is possible.

Assurance engagements are commonly discharged on an annual basis covering sustainability performance over the past year, but it seems stakeholders are more interested in assurance performance beyond a single year. 54% of interviewees claimed that the real value of sustainability assurance is achieved over time. Regardless of how good a

company's assurance report is for a given year, interviewed stakeholders much prefer to see improvement in assurance performance over a given period of time. The perception is that sustainability is still growing and assurance is expected to develop with reporting and control systems getting stronger, where assurance providers are getting more experienced in discharging assurance over different areas (S2). Another area where the value of assurance is more meaningful to stakeholders over time is for companies to demonstrate a consistent approach in operating (for instance, managing supply chain) and regular performance against outlined targets (S1). The consideration of sustainability assurance through its long-term value is also important to investors, as an interviewee (S9) insisted that assurance is a way of identifying sustainability risks inherent in businesses operations. Because 'we (investors) have liabilities stretching for decades' (S9), it is 'vital' to focus on long-term value of sustainability assurance.

Table 6.1 also shows that 54% of interviewees view sustainability assurance as a valuable conduct if explicitly directed at external stakeholders. According to an interviewee (S8), a key influence of getting assurance is providing information that is 'important to stakeholders, so its value should be based on this'. Having an effective relationship with stakeholders involves 'knowing what key stakeholders are thinking' (S9) otherwise an essential part of sustainability reports is missing. The discussion about directing assurance to stakeholders led to the following point of view:

‘As an investor we expect management to manage relationships with stakeholders, if you are not satisfying stakeholders in some significant way, then you are not entirely doing the job properly, so it is relevant. I do think companies ought to be primarily accountable to their investors as providers of risk capital. It is not possible to satisfy all stakeholders, but its useful to know if an important constituency is being neglected (S9).

The relevance of directing assurance to stakeholders is based on the idea that the practice should serve an external purpose. According to an interviewee (S7), if assurance is designed to only benefit internal management, then there is no point in publicising the companies’ decision to assure their sustainability reports and disclose the resulting assurance statement. This signifies the relevance of external constituents in attaining the desired outcome for sustainability assurance. Hence, the perspective of an interviewee (S10) indicates that the focus on stakeholders in assurance is needed and should be promoted further. An effective way of improving the value of assurance is for companies to develop a long-term strategy based on their key stakeholders that will facilitate constant communication and understanding of ideas, which will be supplemented with an assurance procedure at the end of the year (S1). This notion suggests directing assurance at stakeholders alone is ‘unhelpful’ unless the stakeholders have been interacting with the companies (i.e. stakeholder engagement) for collective ‘growth and development’ based on an outlined strategy. While stakeholders acknowledge the benefits and efforts of assuring sustainability reports, they also expressed awareness

regarding the concerns about the practice which indicate the growing tendencies of stakeholder understanding companies' activities.

In summary, this section discusses the perceived values associated with assuring sustainability reports. The views of external stakeholders regarding sustainability assurance suggest there is a perception of additional value to a report. These values, which manifest themselves in different ways include: enhanced credibility, trust and confidence. Also, stakeholders' accounts indicate that companies use assurance to demonstrate their willingness towards transparency and they regard sustainability as a serious issue. Ultimately, stakeholders tend to view sustainability reports that are accompanied with assurance statements more favourably. With the additional value associated with assurance, all stakeholders expressed strict warnings that should be considered, which could significantly threaten the expected value to be gleaned from the practice. The warnings are intended to enhance understanding of assurance statements, which ultimately affects the value that could be gained from the report. The need to be observant on specific areas that are assured is necessary in order to avoid wrongful assumption that key areas or the whole report were examined. Assurance is a by-product of a sustainability report, therefore, the report has to contain information of essence for assurance to enhance its value. According to stakeholders, assurance should also be directed at stakeholders and be consistently commissioned by companies.

6.3 Assurance areas of Relevance (SRQ3b)

This section discusses the vital areas of sustainability assurance and how they should preferably be addressed from the perspectives of external stakeholders. These key areas assist in building the value of assurance (discussed in the previous section) as stakeholders expressed keen interest in different but relevant elements. Unsurprisingly, most of the key issues raised by stakeholders are quite similar to those found in assurance statements and are discussed in detail below. The issues are classified into four sub-sections each focusing on different aspects. They are: scope of assurance, assurance guidelines, independence in assurance provision and stakeholder considerations in sustainability assurance.

6.3.1 Scope of Assurance

All interviewees acknowledge the position that sustainability assurance does not commonly focus on entire reports and every engagement has its set of issues. Nonetheless, 54% of respondents would prefer whole sustainability reports to be assured. The idea behind such an attitude is driven by stakeholders' perceived importance of sustainability information disclosure. This led to an interviewee's (S3) proposition that companies 'should not even bother publishing' part of their sustainability reports that is not assured. There appears to be an element of doubt about areas not assured as interviewees (S4; S9; S8) indicated that 'questions' and 'suspensions', either implicitly or explicitly (S3), will be raised about the 'correctness' of the disclosed information.

However, 4 of the 6 interviewees (S8; S3; S2; S9) who preferred entire sustainability reports to be assured made reference to an 'ideal' world or setting, indicating that chances of this occurring are slim. As such, 3 of the interviewees (S2; S9; S8) acknowledged and discussed the 'practical challenges' associated with assuring whole sustainability reports and concluded that it would not be a conventional practice any time soon. An alternative perspective outlined by 54% of interviewees (S5; S6; S8; S9; S10; S11) indicated that companies could start by focusing on a few aspects but more importantly, the addition of assurance areas must be demonstrated in subsequent assurance engagements. One interviewee claimed:

'Where I would have a big problem is if a company had reported for the last five years and had the same dataset assured year on year. What you would want to see is some kind of progression. So a company starts with the most material issues and then the second year, add a couple more KPIs and next year, add a couple more KPIs. So over time you build and increase the volume of the selected information that is being assured' (S8).

Regardless of the issues being assured, all interviewees were keen to specify the importance of assurance scope as an element that has the capacity to render assurance statements insignificant, if not made apparent. Assurance scope is instrumental in understanding the reports as it gives users a 'direction' (S2) of the entire engagement. According to an

interviewee (S3), assurance statements will not be ‘communicable’ without an assurance scope.

Table 6.2 Stakeholder key interest areas in assurance

| Opinions | Number of views | Percentage |
|---|------------------------|-------------------|
| Assurance scope | | |
| Provide assurance on whole report | 6 | 54% |
| Scope of assurance should be as clear as possible | 10 | 91% |
| Uncertainty surrounding scope of assurance | 10 | 91% |
| Decide on scope in consultation with stakeholders | 8 | 72% |
| Identify level of assurance | 6 | 54% |
| Guidelines | | |
| Important to use assurance guideline | 10 | 91% |
| Absence of guideline raises concern about value | 8 | 72% |
| Recognise difference between the major guidelines – AA1000 and ISAE3000 | 8 | 72% |
| Using both guidelines results in better assurance | 3 | 27% |
| Prefer accountant assurance providers | 6 | 54% |
| Prefer non-accountant assurance providers | 2 | 17% |
| Independence | | |
| Assurance providers have to be independent | 10 | 91% |
| Questionable value of assurance without independence | 5 | 45% |
| Concerns about independence | 6 | 54% |
| Stakeholder considerations | | |
| Stakeholders should be involved in assurance | 11 | 100% |
| Regular involvement of stakeholders | 4 | 36% |
| Assure stakeholder engagement practices | 9 | 81% |
| Constraints to stakeholder engagement assurance | 8 | 72% |

Table 6.2 shows that a large majority of stakeholders (91%) are in favour of presenting assurance scope and exactly what issues have been assured as clear as possible. The delineation of assurance scope eliminates the possibility of forming wrongful assumptions about assurance statements. An interviewee (S6) claimed that the nature of sustainability assurance scope is 'potentially confusing' and requires the producers of reports to establish 'clear communication' to mitigate possibilities of misunderstandings. Although, interviewees (S8; S2; S3; S1; S10; S9) agreed that the scope in current assurance statements is not presented in a very complex manner, they had little to complain about the nature of its presentation.

The majority of interviewees (91%) seem to have a noticeable problem in relation to the uncertainty around assuring part of sustainability reports as well as the rationale behind such decisions. This is due to the fact that only a subset of sustainability disclosure is commonly assured. The challenging issue that raises the uncertainty about assurance scope amongst interviewees is the absence of an exact understanding on why certain areas were not included for assurance. Seven interviewees (S10; S3; S8; S6; S5; S9; S11) indicated that there could be various reasons for not assuring some disclosed information, which could range from reasonable to potentially self-centered motives. An interviewee (S6) claimed that 'it is likely that companies won't give as much attention' to areas they have no intention of getting assured. Another suggested (S11) 'budgets and priorities' prevent certain issues from being assured. One interviewee (S3) indicated that selecting aspects of assurance should be

an ‘internally conscious decision’ and expects companies to have a valid explanation for not assuring some aspects. A different view was presented as:

‘I think that the nature of corporations is that they will choose the bits they are good at to promote. So its going to give them the best story and the way of positioning what they have done and the most impact to their brand. They are not going to choose the areas where they are weakest to get assurance over, from a business perspective, it is a sensible decision. That being said, I think personally credibility around sustainability is incomplete’ (S10).

The criteria for choosing issues to assure are not known to stakeholders although interviewees (S5; S7; S3; S8) suggested that companies should not solely make the decision. Areas with the highest impacts are to be given more priority in sustainability assurance. This results in focusing on the most material or important issues, but interviewees (S10; S3; S8; S11; S4; S7) are not convinced that there is an alignment between management and external stakeholders’ material issues. To ensure that material issues are included in assurance, Table 6.2 shows that 72% of interviewees are of the opinion that assurance scope should be decided based on consultations with stakeholders. However, the perspective of these interviewees appears to be based on expectation rather than knowing that stakeholders are actually involved (this issue will be discussed later) in the process of deciding assurance scope. The collaboration between stakeholders and companies in deciding scope is an indication that both parties are familiar with each other and the

relationship is unlikely to be specifically for the purpose of assurance, which interviewees (S1; S11; S5; S7) strongly support. This promotes the transparency efforts of companies where 72% of interviewees called for more transparency around assurance scope. The comment on scope in assurance reports is acceptable but it would be a 'very good idea' (S5) if more details are provided on issues that are not assured.

The level of assurance was discussed by 54% of interviewees as indicated in Table 6.2. The limited level of assurance had a higher number of recommendations (S2; S7; S10; S8), while only one interviewee (S6) preferred a reasonable level of assurance. Even with greater support, limited assurance is not without its problems. The assurance work required in a limited assurance is less than that of a reasonable assurance, as such, an interviewee (S6) claimed that limited assurance gives assurance providers an opportunity to 'not do very much' and get away with it. Whereas a higher level of attention in examining reports is required for reasonable assurance, which makes assurance providers take significantly more into consideration than compared to limited assurance. That being said, reasonable assurance is regarded as too intense because 'the cost and effort involved is definitely significant and would be prohibitive to most companies' (S8). In addition, two interviewees claimed that companies are still 'struggling' (S2) and 'trying to catch up' (S8) with systems and processes to support limited assurance provision. Thus, there is currently no significant demand for reasonable assurance in the sustainability assurance market.

6.3.2 Assurance Guidelines

As a common feature in sustainability assurance, stakeholders appear to have similar perspectives on assurance guidelines regarding its importance and relevance to the practice. All but one interviewee (S4) demonstrated reasonable knowledge about the popular assurance guidelines employed in the UK (ISAE3000 and AA1000). In spite of this, 91% of interviewees affirmed that the guidelines are key to indicating a robust and recognised process has been applied in producing assurance statements. The application of guidelines is relevant to the extent that 8 interviewees (72%) expressed significant dissatisfaction and doubt about assurance statements without guidelines. Interviewees used terms such as ‘there is no way I can have comfort from such an assurance work’ (S8) or I ‘wonder’ what they have done (S2) or ‘measured’ (S9) or ‘how they came to their conclusion’ (S10), where one respondent claimed ‘I wouldn’t know whether it was assurance’ (S6). A contrast was made between assurance with and without guidelines as:

‘If I look at a statement that has no standard and a statement that has a standard, I will definitely pretty much discard the one without the standard or guidelines because that means I could go and do assurance. It’s completely pointless and meaningless for assurance not to use a standard or guideline. The guidelines and the standards are extremely important at least as far as I can see, and although they are doing different things and they are different, it still keeps

certain comparability and trustworthiness of the process that they have actually followed something identifiable' (S3).

The elements of 'comparability' (S2; S7; S3; S6) and 'consistency' (S10; S11; S7; S5) appear to be vital features that stakeholders appreciate about guidelines. Nevertheless, interviewees were generally unwilling to choose a preferred assurance guideline as only 3 (S3; S9 for ISAE3000; S5 for AA1000) indicated their preference. Interestingly, 72% of interviewees are reasonably familiar with both assurance guidelines including their focus and approach. This has considerably assisted in shaping interviewees' views on deciding not to have a preferred guideline because the nature of companies' activities, data and report presentation could be more applicable for a particular assurance guideline (S8; S3; S3; S6). Hence, interviewees prefer either AA1000 or ISAE3000 based on the content of sustainability reports and purpose of assurance. Although, some respondents (S6; S7; S9) are in favour of applying both guidelines to compliment their key attributes.

The presence of more than one major assurance guideline is not appealing to all stakeholders as an interviewee (S11) suggested that the market of sustainability assurance 'will significantly be improved' if there was a single guideline. But it seems some stakeholders are particularly satisfied with having more than one assurance guideline as another interviewee (S3) claimed that 'I think it is good that there are a variety of guidelines because there are a variety of reasons for getting assurance in the first place'. There were also observed concerns about guidelines from 5 interviewees (S11; S5; S7; S9; S1) all in relation to the inadequacy of

current assurance guidelines. The account of stakeholders also confirms that assurance guidelines have a certain degree of association with types of assurance providers.

All interviewees acknowledged the important role of assurance providers, but like assurance guidelines, the relevance of assurance providers' categories is more dependent upon the information assured and the focus of assurance (S3; S10; S9; S7). As a result, respondents recognised the value of different categories of assurance providers even though most of them identified a preference. 6 interviewees preferred accountants while 2 favoured non-accountants. The greater preference on accountant assurance providers was due to their 'rigour' (S1; S7), 'training' (S2) and 'long history of assurance provision' (S2; S6). Accountants are also more likely to be regulated and members of professional bodies (S8; S6). The 'brand' image of accountant assurance providers was recognised by 4 respondents (S5; S10; S9; S11), including those that preferred non-accountants. However, it appears there are areas that accountants are not effectively satisfying, according to an interviewee, who claimed 'I don't know whether accountants necessarily communicate best value for stakeholders' (S7). One interviewee (S9) proposed an interesting perspective by asserting that:

'I don't see why you cannot have more than one auditor in sustainability assurance, especially if they have different types of expertise that compliment each other. I know you don't see it very often but there is a case for joint audits' (S9).

The contribution of assurance providers is essential to the practice, especially for those who have a history of working with large UK companies. As such, a respondent (S3) remained adamant about the difference, or lack of, between assurance providers by claiming ‘I genuinely don't think that one or the other is better than the other’. According to this interviewee, the main difference originates from ‘companies’ processes’, which influence how an assurance engagement is carried out. While choice of assurance guidelines and type of assurance providers are important, stakeholders consider the content of sustainability reports as a better indicator for delivering a high quality assurance engagement.

6.3.3 Independence in Assurance Provision

As expected, independence of assurance providers appears to be a highly expected feature in sustainability assurance. Table 6.2 shows that 91% of respondents believe that assurance providers should be independent, which should be made apparent in the statement. Expressions such as ‘essentially a norm’ (S4), ‘very important’ (S8), ‘really crucial’ (S6) were used to describe the relevance of independence. The importance of assurance providers’ independence is valued by stakeholders to the extent of being ‘worried’ that assurance provider’s efforts cannot be ‘trusted as it takes away the basis’ of assurance (S6), if found to be absent. Another interviewee argued that ‘you cannot issue an assurance statement if you are not independent’ (S3).

Interviewees highlighted various situations whereby the concept of independence is crucial to company management, and must be handled properly. An interviewee suggested that the occurrence of 'major corporate disasters over the years is down to the independence of the people involved' (S11). Another interviewee claimed that 'large firms have had to pay a very heavy price due to their loose attention towards independence issues' (S2). These two interviewees (S11; S2) indicated that the absence of sound independence processes within corporate activities leads to its diffusion across different parts of businesses, which could attract serious negative consequences. Effective independence is a robust approach for demonstrating transparency, where 'hidden agendas' with the ability to distort the view and understanding of issues can be exposed (S10).

With the high degree of support for independence in sustainability assurance, there appears to be a difference in perception regarding its approach across interviewees. An interviewee commended the state of independence in assurance by suggesting that 'the practice is pretty robust at the moment so I don't think that's a major consideration to be honest' (S1). Meanwhile another interviewee is not entirely satisfied with assurance independence and proclaimed that 'I am not sure independence is communicated as well as possible' (S8). There are situations whereby assurance providers assure sustainability and annual reports of the same company. An opinion was offered by an interviewee (S8), who claimed that doing financial and non-financial assurance 'does not provide any independence clash because they are two different sets of data, but in fact it actually enhances both offerings because of having a

better understanding of the company, and knowing their inner workings' (S8). In direct contrast to this perspective, another interviewee (S3) argued that:

'You need to be independent, and it is all about having a certain kind of distance to be able to question the processes, the data and the information. So if you are an internal person or if you are a person who knows the business really well you will take things for granted, you will assume figures are correct. You need to be independent in terms of actually not knowing too much about businesses' (S3).

The current state of independence in assurance provision is observed to possess certain concerns according to interviewed stakeholders. These concerns were, at least, alluded to by 54% of respondents. The key concern relates to the doubt about the level of independence portrayed in assurance engagements and the belief from respondents that more could be done to improve its quality. There is a view that assurance providers are not particularly critical (S10; S11; S5; S7) when it comes to investigating assurance claims. This, according to an interviewee (S10), is because assurance providers do not want to damage or 'upset the relationship they have with organisations and want to continue getting the 'support of a brand association'. As a result, the assurance provider's position of 'completely independent' cannot stand due to the 'huge amount of influence and negotiation that goes on' (S10). Hence, another interviewee suggested that 'it would be better if there were more open declaration of independence, addressing the nature of the business

relationship between the two organisations (S9). The level of rigour with regards to independence was also called into question as an interviewee had reasons to believe that there are assurance providers that play a role in sustainability reporting and assurance, thereby 'violating the elements' of independence (S7).

Perhaps the most intense criticism and concern about independence in sustainability assurance is that the whole idea is 'misunderstood', according to a respondent (S5). This interviewee argued that:

'Frankly it is not possible for an assurance to be independent if they are getting paid. Much more relevant to that is impartiality, you can ask a question about that and you can be clear what your position is as an assurance provider in terms of impartiality but there is nothing you can do if you are going to get paid. I think one of the reasons why I am cautious about endorsing assurance provision is that I suspect they are not as challenging and therefore not as impartial as I would expect' (S5).

The same interviewee insisted that the current state of assurance independence enforces focus on management, whereby adopting an approach that focuses on important issues to stakeholders rather than management would be more helpful (S5; S10). The absence of a specific position on independence for sustainability assurance fuels the different perspectives of stakeholders, having an independence framework will significantly help provide clarity and focus to all parties involved. The

independence framework will also assist in having an identifiable body responsible for managing relevant complains and concerns.

6.3.4 Stakeholder Considerations in Sustainability Assurance

The importance of stakeholders was made apparent by all interviewees (Table 6.2) who recommend and expect stakeholders to be involved in sustainability assurance engagements. To ensure sustainability disclosures are 'equitable and useful to stakeholders at the same time, it is essentially important that they are involved in assurance procedures (S4). With the multitude of sustainability information companies are producing, all having various degrees of impact to different stakeholders, an interviewee was confident that the presence of 'stakeholder voice' adds value to reports (S7). Another interviewee argued that without the involvement of stakeholders to a certain degree, companies can 'easily manipulate' published data and information (S2). The respondent continued by claiming that:

'If companies are making statements on their impact in society, I can't really think of any other way to assure that beyond going to speak to those stakeholders. You know, that will be the audit test. Inclusivity makes assurance providers know more about how issues are managed' (S2).

Even though stakeholder involvement in assurance is regarded as a 'legitimate technique' (S9), there appears to be a variance in opinion regarding how stakeholders should be involved in assurance and the

issues that require more stakeholder involvement. Stakeholder participation in assurance has generally been viewed as direct or indirect and respondents seem familiar with the classification. 72% and 64% of interviewees supported direct and indirect stakeholder involvement approach respectively. Exactly the same respondents (S5; S7; S6; S8; S3; S1; S2) mentioned both direct and indirect stakeholder involvement, except S10, who favoured only direct involvement. The direct stakeholder involvement is particularly popular amongst respondents due to its ability to generate data specifically for the assurance exercise (S2; S1; S10; S8; S6; S3). Also, its ability to provide rich insights on responsiveness makes it a more valuable approach (S8; S1; S3). Interviewees (S6; S1) acknowledge the added effort of having to carryout a direct stakeholder engagement exercise, but claimed that the way companies structure their reports influences the need for assurance providers to require direct stakeholder involvement in the process of evidence collection (S1; S2). Indirect involvement of stakeholders in assurance is viewed as 'essential' (S1) and 'necessary' (S6) because assurance providers have to make use of external evidence and documentation.

The state of narrative around sustainability information is particularly an apprehensive feature of sustainability reports as expressed by four respondents (S3; S10; S7; S2). The combination of qualitative and quantitative information makes it difficult for subsequent assurance to capture all the key elements. According to these interviewees, the various reporting approaches effectively make assurance 'bespoke' (S3) and require the need for external sources of evidence. As such, involving stakeholders is valuable to assurance but suggested it probably would not

be enough as the nature of interactions between assurance providers and stakeholders is not very clear (S6).

Assurance providers have to ensure that stakeholders being involved are not only relevant, but also have had recent and extended interaction with respective companies. Hence, an interviewee (S1) was strongly against stakeholder involvement specifically for the purpose of assurance by arguing:

‘So I think certainly stakeholder involvement is obviously important, whether it’s done as part of assurance per say, am not sure. I’d rather see them (stakeholders) involved in the strategy planning process to be honest. Because if it is done as part of reporting and assurance alone, there is a danger that it can be often be treated as an afterthought. The risk, I think we want to avoid, is business, first of all, having two separate strategies - a corporate strategy and a sustainability strategy- and then just reporting and engaging stakeholders as part of the assurance on the sustainability strategy, becoming a tick the box exercise, that I think is unhelpful. I think we want to get to where businesses are consulting various stakeholder groups as part of external scanning of identifying and selecting strategic issues for the business in the first place. What I rather see, therefore, is stakeholder engagement done earlier on as part of the corporate strategy planning process. Otherwise, it ends up being quite peripheral to the business; it’s not really central to the business strategy, products and services’ (S1)

Other interviewees (S11; S6; S10) offered similar views, all in relation to stakeholders having a more significant role in businesses, not only as part of reporting and assurance. A consistent platform for 'working with stakeholders throughout the year, not just at the end of the year when producing a report' (S11). As a result, the collaboration and outcome of the strategic interaction would be more meaningful.

Table 6.2 also shows that 81% of respondents expect stakeholder engagement practices of reporting companies to be assured. Interviewees view stakeholder engagement activities by companies as 'important' (S6; S2; S7; S5) and appear to know that disclosure on this issue has been growing in recent years. They (S9; S2; S10) also know that the majority of stakeholder engagement disclosures are not assured, which an interviewee claim is more of a reason to accept as 'companies half-baked interpretation of stakeholder views' (S9). Based on the set of interviewees in this study, there is a belief that publishing stakeholder engagement information without being assured is not really accepted as a trusted or very valuable disclosure.

The urgency to have stakeholder engagement information assured is based on companies' industry of operation, according to four respondents (S2; S7; S8; S9). This argument is based on the fact that companies' activities have varying degrees of impact on communities and the underlying assumption that key activities of companies operating in the same industries are similar. While all companies are expected to participate in stakeholder engagement, the higher the perceived impact of companies' activities, the more pressure and expectation those

companies have to ensure that disclosure on their stakeholder engagement disclosures are accurate and relevant (S5). An interviewee stated:

‘For me that (stakeholder engagement assurance) really relies on a company sector, so I would not expect to see a professional services company to be assuring their stakeholder engagement activities, but then if its an extractive company like Mining, Oil and Gas or Alcohol, Tobacco, I think those are the industries that have a much greater need for assurance on stakeholder engagement and they need to be demonstrating that they are engaging properly. The stakeholder engagement and the assurance of stakeholder disclosures are much more important and add more value. I would not say that it is a one size fits all activity across all industries, it definitely depends by industry’ (S8).

Apart from companies’ industry of operation and size, their association with sensitive issues is also an influencing factor that drives the need for assuring stakeholder engagement information (S10). The assessment has to be made by companies to identify ‘material’ areas within their businesses, for which reasonable stakeholder engagement reporting and assurance would be helpful (S5).

Interviewees (S2; S10; S7) acknowledged that assuring stakeholder information is not quite exactly the same as other company information based on the emphasis on data. A large part of sustainability assurance focuses on data investigation (S6; S8), but stakeholder engagement

assurance has less emphasis on data and more around the relevance of the disclosed information from stakeholders' perspectives (S5). According to an interviewee (S6) with an accounting background, the approach being utilised in stakeholder engagement assurance is not consistent with conventional assurance that have been undertaken prior to the emergence of sustainability assurance. As a result of the difference, sustainability assurance is still not yet able to effectively capture key elements surrounding stakeholder engagement practices of companies.

A suggestion was offered by five interviewees (S7; S8; S5; S2; S9) in an effort to ensure stakeholder engagement information has gone through a third party assessment. A stakeholder panel seems to be quite a valuable means of getting experienced, 'recognised, respected and relevant' (S2) stakeholders to voice their opinions on the sustainability performance of companies. An interviewee claimed that 'a large proportion of the assurance work would be done by the stakeholder panel, so they provide a lot of the content assurance providers would be assuring' (S8). The same interviewee suggested that 'I think it would be good to see more stakeholder panels, but that is not enough for assurance'. The general impression from all the interviewees (S2; S7; S8; S9; S5) is that stakeholder panels do not perform the same function as assurance, one of them urged:

'I think using assurance stakeholder panels in that sense is quite valuable, I don't think they (stakeholder panel members) are auditors though. There is a need to have stakeholder panels as a complementary practice, and then a kind of an ultimate assurance

practice. Stakeholder panels should be in addition to conventional auditors assurance engagements' (S7).

With the established difference between assurance and stakeholder panels, an interviewee (S11) argued that companies might decide that commissioning stakeholder panels alone is enough for their sustainability reports. An instance was drawn from the conduct of Shell who previously commissioned assurance but have been using an 'Executive Review Committee (ERC)' as a third party statement in recent years. The executive committee provides an annual assessment of Shell's sustainability reports by different individual experts. While this practice is not exactly assuring stakeholder engagement, even though they have similarities, the interviewee suggests that companies are not always willing to go through with assuring their stakeholder engagement practices due to the challenges involved.

There are constraints associated with stakeholder engagement assurance as revealed by 72% of interviewees (Table 6.2). The common concern regarding stakeholder engagement assurance deals with data availability and adequacy as professed by five interviewees (S7; S6; S8; S11; S2). An interviewee (S8) claimed 'I think its probably fair to say that there is not enough emphasis on the stakeholder views and thoughts in the (reporting) processes', therefore, little data is generated which affects assurance. Another interviewee (S2) suggested that 'companies can manipulate that (stakeholder engagements) quite easily by going to the stakeholder who they know will answer' their questions in the way they want. These inconsistencies enabled an interviewee (S6) to question

whether companies actually think about the nature of their stakeholder engagements they are practicing and how assurance could be discharged on the subject matter at the end of the year.

The 'lack of rigorous procedures' on stakeholder engagement assurance was a source of concern for an interviewee (S11). In comparison, another respondent simply believed that 'stakeholder engagement is not ready for assurance' (S8). The approach to sustainability assurance is a key area of concern to one interviewee (S10) as assurance providers' application of materiality and completeness of reports differ. The same interviewee provided another reason why companies are not very keen on assuring stakeholder engagement practices by proclaiming:

'I think a lot of organisations are a little bit closed and don't want to disclose who they talk to. I think may be its because in some instances, they don't want to be seen to be discussing business issues with others, like NGOs in some cases. That perhaps makes them appear as if they don't understand their own business. I think there are some concerns about how companies engage and who they talk to and why they talk to external parties. And that is perhaps why they keep these conversations in-house. They are asking those companies to come along because they are seen to be trusted, independent advisors, so by their nature the fact that they are discussing things in a roundtable is probably enough and they don't feel the need to assure that, if that makes sense. I think corporate will have to be very brave to do that because they have to feel comfortable that perhaps a group of stakeholders might

raise issues or make recommendations that the organisation isn't going to buy into and then they will need to justify why and how they are going to take actions. Some companies simply have to keep conversations with stakeholders in-house' (S10).

According to the interviewee, companies have to be in a position where they 'do not have anything to hide' if stakeholder engagement assurance is to develop. For stakeholder consideration to prosper within sustainability assurance, there needs to be long term commitment by both parties (companies and stakeholders) based on a clear feasible strategy.

In summary, this section focuses on key areas of relevance in sustainability assurance from the perspective of stakeholders. Interviewed stakeholders generally demonstrated impressive familiarity about key components of sustainability assurance. Interviewees preferred a situation whereby entire sustainability reports are assured, but realistically understood the challenges involved in undertaking such a task in an area that is still emerging. Due to the high cost of assuring entire content of sustainability reports and the relatively underdeveloped state of social performance of companies, stakeholders are determined to witness gradual improvements in areas being assured over a period of time. However, questions remain around the selection of assurance scope, which appears to be predominantly under the control of management. Interviewees agreed that assurance guidelines bring a certain level of consistency and comparability, even though there is room for improvements. Differences associated with the AA1000 and ISAE3000 were acknowledged by

stakeholders, which attracted support from interviewees for providing a recognisable platform for discharging assurance.

There were also concerns that the guidelines have not been successful in improving user understanding of assurance statements. Interviewees associated the assurance guidelines to respective categories of assurance providers. Independence of assurance providers is considered as crucial. However, stakeholders are not completely confident with the nature of its application in assurance engagements. The acceptance of stakeholder involvement in assurance was highly evident with indirect stakeholder involvement being a regular conduct, whereby interviewees called for more direct stakeholder involvement in assurance. Stakeholders view assurance of stakeholder engagement practices of companies as an important part of assurance engagements, with the recognition of a rather fragile state of companies' stakeholder engagement efforts. Interviewees appear to be interested in systematic assurance of stakeholder engagement practices in order to strengthen the 'triangle of relationships' (S6) in sustainability assurance.

6.4 Improving Sustainability Assurance

Interviewees identified a number of areas in sustainability assurance that, in their opinion, require further attention in order to improve the processes and procedures when discharging the practice. This also includes issues stakeholders are not particularly convinced about based on the current state of the practice in terms of satisfying key attributes of social and environmental accountability. The range of issues raised by

interviewees are aimed to assist in improving sustainability assurance practices from the perspective of stakeholders

Apart from the assurance statements that commonly appear in sustainability reports, interviewed stakeholders appear dissatisfied with the state and approach of how management letters are managed. As a feedback mechanism where assurance providers confidentially prepare a report specifically to company management detailing findings on the sustainability performance of companies as a result of the assurance engagement, two interviewees (S5; S7) were expressly concerned that 'material' information would not be passed to stakeholders. Another two interviewees (S2; S9) agreed that it should remain private as 'the management letter is a very sensitive corporate information' (S2) and 'once you start making management letters public, less interesting things will appear' (S9) that will undermine the value of the document. A different set of respondents (S10; S6; S8) would like management letters to be made public, but would be 'very surprised if companies would be comfortable doing that' (S10), which makes it 'unlikely' (S8).

This resulted in 45% (S9; S2; S10; S6; S8) of interviewees supporting the public disclosure of management letters but only 18% (S5; S7) will go as far as expecting its occurrence. However, Table 6.3 shows that 64% of interviewees are interested in public disclosure of the whole recommendations and areas of improvements section in management letters. An interviewee claimed doing this 'shows the company is serious and keen to address the issues raised and highlighted as where they need to do better. You can find companies doing similar things for years and

then you wonder what has changed and are there any improvements that one can equally highlight?’ (S10). There are assurance statements that are accompanied with some recommendations but an interviewee (S2) argued that it is too brief to be the whole recommendations and that is a problem because users do not know how and why only certain recommendations were included in assurance statements. As such, a respondent claimed

‘A layer of accountability is almost lost because if you invested heavily in an assurance engagement, then why not show stakeholders the value by pointing out where they have made recommendations and how you are going to act on them. Recommendations, I think should be more expansive, less wishy-washy and more substantial’ (S7).

The idea to provide more information around recommendations and explanations on how companies will respond to the recommendations attracted further support from two more respondents (S10; S5). However, divulging too much public information may ‘condition the mind of officials (i.e. assurance providers) to write more cautiously’, according to an interviewee (S9), and this might not always be helpful. The purpose of assurance would be strengthened if, at least, all recommendations are disclosed for stakeholders to monitor performance more effectively.

Table 6.3 Stakeholder views on assurance areas of improvement

| Opinions | Number of views | Percentage |
|---|------------------------|-------------------|
| Make all recommendations in management letters public | 7 | 64% |
| Important to give feedback | 9 | 81% |
| Issues of discontent in sustainability assurance | 8 | 72% |
| Communication of assurance providers | 7 | 64% |
| Regulation of sustainability assurance | 7 | 64% |

For the improvement of sustainability assurance, 81% of interviewed stakeholders argued that giving feedback should play an important role and be more common, as ‘it is very helpful in improving quality year on year and challenging to produce evidence that is necessary to back up statements’ (S4). Interviewees described giving assurance feedback as ‘very useful’ (S6), ‘important’ (S3) and ‘helpful for assurance providers to know what users think’ (S9). With the positives associated with offering assurance feedback, its value appears to be more meaningful when given on assurance as well as sustainability reports and it should be as part of an ongoing process. This should provide a better opportunity for learning, understanding impacts and moving forward (S1). The interviewee was convinced that only ‘minority stakeholders who are really qualified enough to provide meaningful feedback on assurance processes’ (S1) have the time to do so. This position is somewhat evidenced from the number of respondents in this study who have previously provided assurance feedback. Of the nine (81%) respondents who asserted that offering

feedback is important in sustainability assurance, only two have actually been able to do so.

Since there appears to be a dearth in quality assurance feedback, at least from this study, two interviewees (S2; S6) were of the opinion that assurance providers should not entirely rely on feedback in order to improve the quality of their assurance provision. Alternatively, two interviewees (S7; S10) suggested that the intentions of some parties offering feedback might not always be best for the practice. One (S7) argued that ‘feedbacks are not always sincere in order to avoid upsetting companies, which makes it highly disappointing’. The other interviewee presented a more detailed view as:

‘It is sometimes difficult, if you are an organisation [stakeholder] who relies on a company to purchase services or some kind of support or campaign donations or anything like that. The organisation [stakeholder] will not feel comfortable being particularly critical or overly critical when giving their feedback because they don't want to upset the relationship that they have with the company as that could mean not getting the funding, support or brand association they were looking for. It is not completely independent, you would always have to caveat it and think about okay why is this feedback being provided, who is providing it and what is the relationship between them and so on’ (S10).

Table 6.3 also shows that 72% of interviewed stakeholders expressed dissatisfaction about different aspects of sustainability assurance. The presentation of assurance statements and its underlying efforts are largely inconsistent according to 64% of interviewees (S10; S8; S4; S9; S3; S1; S2). A higher 'degree of consistency' (S4) was called for as it potentially reduces confusing elements in assurance. The need for 'developing more consistency' in assurance disclosure was stressed by an interviewee (S1) who made reference to the situation as 'often the blind leading the blind'. The inconsistencies prevent a 'level playing field' and have an adverse effect on 'developing interest' (S10) in the area. Hence, a recommendation was made by an interviewee (S1) for a 'common language' in sustainability assurance to be established between assurance providers, companies and users.

Having a common language could assist in improving the clarity of assurance statements which appears to be of concern to a number of respondents (S7; S1; S5; S6). Clarity enhances understanding of actions taken, which an interviewee (S6) claimed not only enables comparison from one assurance engagement and another but also between assurance statements and content of corresponding sustainability reports. Clarity in assurance statements assists in demonstrating better attempts towards transparency of activities. However, the entire level of transparency currently displayed has not been successful enough in alleviating stakeholder doubts, as seven interviewees (S10; S2; S1; S7; S6; S8; S9) remain perturbed about the nature of transparency in sustainability assurance. The account of an interviewee (S10) suggests users are often left with questions after reading assurance statements; these questions

become suspicions, which are ultimately indicative of lapses in transparency. Another interviewee suggested that 'a key step is that assurance providers should be transparent over what they have done and how they have done it' (S2).

The level of rigour in the area of sustainability assurance as a whole was called into question as a respondent argued:

'The assurance community could perhaps need to have more rigour in terms of sustainability at least and make sure that the people involved in these processes actually have some kind of understanding of the value of assurance rather than just going to do something of a tick box exercise. There are few qualifications out there but there is little or no support, partially that's because they are not properly communicating the real value of providing assurance to organisations. So if you want to bring the rigour into the industry, I think it would be important that assurance providers understand and communicate the value and the reason as to why they are qualified to conduct assurance engagements. Assurance providers should be promoting assurance better because that is their profession by qualification' (S7).

Perhaps the questionable rigour could be associated with the uptake of other notable concerns. Another interviewee (S5) highlighted the unsatisfactory level of the challenge assurance providers appear to demonstrate during assurance engagements. The interviewee claimed:

‘My general impression is that most of them (assurance providers) are doing a fairly middling job; few of them are very challenging. I think few of them make gross mistakes or errors at least in terms of the accuracy of the material issues; the test of the scope coverage is not done so well. Some assurance statements are very thin and limited; there could be more focus and disclosure, bigger assurance statements, if you like, with more consideration on users, that will be more useful. I am not sure that material issues are well covered for the range of stakeholders organisations have’ (S5).

Among the discussions regarding problems associated with sustainability assurance, interviewees (S6; S4; S11) expressed serious concerns about its fundamental meaning. What makes this issue more concerning to the respondent is that there seems to be no apparent solution on the horizon regarding the different views on the meaning of sustainability assurance. An explanation on this was provided as:

‘It is a real problem that we don't always mean the same thing when we say assurance. I don't know what the solution to that is because there is a technical accountancy meaning of the word assurance before sustainability reports ever came along and there was a bit of a problem that happened when people started providing assurance of sustainability reports. Now both practices are well known under the same terminology and are accepted across the whole market, to me, that is a problem. What is happening in sustainability reporting is really important but that makes it harder for professional accountants to even understand

what is being asked of them and what they are doing. I mean, maybe I should not complain about that because people have managed to be fine with it, but it irritates me. I'd really like to be able to talk about these things without creating confusion, but I haven't found a way of doing so' (S6).

In addition to the different meaning of assurance, interviewed stakeholders were also worried about the lack of apparent communication between assurance providers on assurance issues. 64% of interviewees, as shown in Table 6.3, acknowledge the position that assurance providers do not appear to engage with each other for the purpose of discussing and finding collective solutions to challenges facing sustainability assurance. Exchanging views and experiences among assurance providers is 'helpful and important' (S5); another interviewee suggested that the lack of communication between assurance providers is 'dangerous', as there is a 'gap that has to be breached' (S9). The different assurance providers from diverse orientations as well as strengths and weaknesses can only complement each other to promote the practice further, according to another interviewee (S7).

However, the differences in orientation of assurance providers, as claimed by one interviewee (S6), is a key element that prevents different categories of assurance providers (accountants and non-accountants) from being able to negotiate and converse. According to this interviewee (S6), there has to be a common ground for conversations to hold, but both parties perceive basic elements of assurance in different ways, for instance, 'materiality'. This makes it challenging for communication to be

established and sustained. Instead, interviewees (S10; S6) claim different notions of elements and accompanying approaches has become a competitive aspect in assurance provision. Assurance providers are competitors against each other and they view exchange of ideas and experiences on assurance as 'sharing competitive information, which could be difficult for them to do' (S10).

An interesting opinion on why assurance providers do not communicate with each other, particularly between small and big firms, is the potential possibility of being 'threatened that sharing valuable information' might attract interest from the big firms to 'size them (the small firms) up for a purchase in the future' (S10). The argument on the difference between assurance providers that leads to lack of communication was disregarded by an interviewee (S3) who suggested a 'less business and more science' approach. This is based on the view that assurance providers will find ways of communicating if they really value the practice (regardless of their underlying differences) to assist in developing a suitable platform for curbing 'emergence of unaccredited assurance providers' (S3).

With the numerous approaches to sustainability assurance as a voluntary endeavour, regulation might play an important role in its stabilisation. Table 6.3 shows that 64% of interviewees support sustainability assurance to be a regulated practice. While they all agreed to the benefits that regulation will bring to assurance, such as having a 'level playing field' (S8) and 'uniformity' (S6), obstacles were also highlighted. A respondent (S6) argued that regulation would prevent development of new ideas, which might not be beneficial to the practice due to its current level of

understanding. Another respondent claimed ‘assurance is still in its infancy to consider being regulated’ (S8). The concern with regulation in an accountancy field is that:

‘One thing that the accountancy profession often does is to reduce everything down to one clear idea of this is exactly what a service looks like and this is exactly what we are going to offer and that could be a real problem because it means you are no longer flexible, you can’t keep developing it’ (S6).

Although interviewed stakeholders do not encourage sustainability assurance to continue being a voluntary practice, due to its perceived importance, there was a suggestion that ‘some sort of quality control mechanisms’ (S6) should be implemented soon or regulation on the ‘simple and straightforward’ (S8) elements should be issued. A respondent recommended regulation based on ‘easy requirements’ (S3) that most companies and assurance providers could easily satisfy, followed by gradual development. The view of one interviewee (S5) is that sustainability assurance will not generally be considered as a serious field of practice unless it is accompanied by a regulatory framework. Four interviewees (S2; S1; S8; S9) believed that the International Integrated Reporting Council (IIRC) is a platform they expect to bring regulation to sustainability assurance given its already established association with key members in the industry. However, all the respondents do not expect assurance regulation to be introduced by the IIRC soon as the council is in its ‘very early stages’ (S8). It was interesting that stakeholders raised various tangible concerns about sustainability assurance, most of which

were highlighted in the interviews with assurance providers. Moving forward, stakeholders have to be more active in terms of asking more valid questions in an attempt for the concerns to be addressed.

In summary, this section concentrates on areas of improvement in sustainability assurance from the perspective of respondents. Stakeholders appreciate the potential of sustainability assurance but key aspects of the practice need specific attention. While the management letter should remain a confidential document between companies and assurance providers, stakeholders are keen on having access to all recommendations outlined by assurance providers for an accurate measure of performance and more understanding of issues. The large majority of interviewees (81%) claimed that offering feedback is an important part of assurance but only 2 of 9 (S3; S10) have actually given feedback on assurance engagements while the other 7 have never done so. Other key areas that stakeholders are concerned about include the extent of assurance statements' clarity, consistency and transparency. Also, the position that different assurance providers do not communicate with each other on challenges and issues facing sustainability assurance is not particularly welcoming to stakeholders. There is a general call for regulation in sustainability assurance but indications from interviewees suggest it will be a while before any comes into the fray.

6.5 Findings

This section presents a summary of findings from stakeholder perspectives on the state of sustainability reporting assurance. As a result of the range

of issues discussed with interviewed stakeholders, the key findings are broadly classified into three interrelated groups that are consistent with the supporting research questions presented at the beginning of the chapter. Discussion on the value of assurance will be dealt with in the first group based on SRQ3a. Assurance areas of relevance is covered in the second group which corresponds with SRQ3b. Summary of improvements that should be employed in sustainability assurance is the focus of discussion in the third group and consistent with SRQ3c.

6.5.1 Value of Sustainability Assurance

Findings in this study suggest that an overwhelming number of stakeholders accept that sustainability assurance does add value to sustainability reports. This is consistent with the views expressed in the studies by O' Dwyer (2011), Urzola (2011) and Adams and Evans (2004) that assurance 'adds value to management and stakeholders' (Edgley et. al, 2010, p. 553). Although, the interesting part of this finding is that all respondents appear to be quite conscious and very cautious about the exact value that sustainability assurance brings. The perception of added credibility of reports, the demonstration of effort towards transparency, the consideration that companies perceive sustainability issues seriously as well as enhanced confidence in reports are the particular added value elements outlined by stakeholders. More importantly, interviewees were keen to indicate that the presence of an assurance statement does not necessarily mean accompanying reports possesses all the added values associated with sustainability assurance. As such, the large majority of respondents outlined caveats to be considered alongside assurance

statements to avoid misinterpretation. Findings in this study reveal these caveats have a huge impact on the perceived value of sustainability assurance.

Similar inadequacies of sustainability assurance 'added value' were discussed in previous studies of Ball et. al. (2000); O' Dwyer and Owen (2005); Deegan et. al. (2006); Mock et. al. (2007). Specifically Perego (2009, p. 423) argued that 'the added value of assurance statements depends on criteria used to assess an assurance engagement. This is quite similar to the findings in this study in relation to the extra care that should be exercised when assessing the value of sustainability assurance. The heightened attention to detail on assurance is more relevant if perceived from the perspective of Simnett et. al. (2009) who suggested that corporate disclosures do not effectively represent the various dimensions of societal values today. While stakeholders appreciate the effort that goes into producing assurance statements, questions marks remain around the specific value of the practice. Consequentially, findings reveal negative perspectives on sustainability assurance still exist to the extent of branding the practice as a 'distraction' to corporate financial performance.

6.5.2 Key areas in Sustainability Assurance

The scope of assurance features prominently in all interviewed stakeholders' views regarding key elements of assurance. While the importance of assurance scope is generally undisputed (O' Dwyer and Owen, 2005; Manetti and Becatti, 2009), findings in this study reveal stakeholders experience a considerable level of uncertainty on assurance

scope. Respondents agree that management decide on assurance scope, but are more comfortable with the scenario if key stakeholders are consulted. Respondents seem unsatisfied with the approach and application of selecting certain areas to assure. Interviewees expressed interest on issues discussed in reports but not assured and significantly more in situations of consistent disclosure without assurance. The criteria for selecting assurance scope does not appear to be an issue interviewed stakeholders are well acquainted with even though they want to. This adds more support to the inconsistencies surrounding assurance scope as discussed by Perego and Kolk (2012), Manetti and Becatti (2009).

Findings in this study confirmed that stakeholders would pay little or no attention to assurance statements without consideration of renowned guidelines. Interviewees demonstrated valuable insights into key similarities and differences of the two main assurance guidelines (ISAE3000 and AA1000). Interviewees prefer assurance engagements to be discharged by accountant assurance providers due to their rigour, training, historical association with audit services and reputation. This is consistent with the view of Simnett et. al. (2009) who classified accountants as 'high-quality assurance providers' (p. 943). Non-accountant assurance providers cannot compete with accountants on these qualities, but their sustainability related expertise as well as their willingness to apply novel approaches is noteworthy.

Independence of assurance providers appears to be as valuable to interviewed stakeholders as elaborated in literature (Ball et. al, 2000; Smith et. al, 2011; O' Dwyer and Owen, 2007; Jones and Solomon, 2010).

However, interviewees claim assurance providers and companies are too close, which prevents them from effectively operating independently. Findings in the studies by Deegan et. al. (2006); Ball et. al. (2000); O' Dwyer and Owen (2005) raised concerns about assurance providers independence based on the apparent focus of assurance engagements towards internal management. This, according to Deegan et. al. (2006), 'have implications for the perceived independence of assurance providers' (p. 341).

Findings in this study suggest all interviewees view stakeholder participation in sustainability assurance as an essential part of assuring various stakeholder claims. The high rate of stakeholder involvement expectation from respondents is in consonance with prior studies by O' Dwyer et. al. (2011); Manetti and Toccafondi (2012); Edgley et. al. (2010) who noticed the growth of stakeholder involvement in sustainability assurance. Respondents were keen on both direct and indirect stakeholder involvement due to its possibility for generating data from different perspectives. Findings indicate interest in direct stakeholder involvement. Stakeholders considered for assurance involvement have to meet certain criteria of relevance and familiarity with subject matter in order to be able to make a meaningful contribution to assurance processes.

While respondents largely endorse assurance of stakeholder engagement disclosure of companies, there is a belief that industry of operation plays an influential role in shaping the extent to which companies are expected to assure their stakeholder engagement activities. Companies operating in

sensitive industries⁴⁹ appear to attract a higher degree of expectation from interviewees to have their stakeholder engagement practices assured. Also the size of companies, translated into higher degree of impact in society, attracts the expectation of having stakeholder engagement assured. The sustainability literature is dominated by the expectation that sustainability performance is higher on large and environmentally sensitive companies (Kolk, 2010; Cho and Patten, 2007; Adams, 2002; Gray et. al, 1995; Patten, 1991; 2002). As a result, respondents might have channeled these influences to bestow the priority of stakeholder engagement assurance expectation on large and sensitive companies.

Findings in this study reveal that stakeholder engagement assurance is viewed as an undeveloped area in assurance and is faced with challenges in execution. The idea of utilising a stakeholder panel approach was recommended by respondents as it enables companies to improve their stakeholder engagement practices. All the respondents were keen to clarify that a stakeholder panel is different from an assurance procedure; but could play an important role in complementing and assisting assurance.

6.5.3 Improvements in Sustainability Assurance

Findings in this study suggest stakeholders are specifically interested in the management letter recommendations outlined by assurance

⁴⁹ Interviewees referred to Mining, Oil and Gas, Utilities, Alcohol and Tobacco as sensitive industries

providers, which can be used as a benchmark for progress monitoring by external parties. There is an acknowledgement that some assurance statements are accompanied by recommendations but respondents believe they are not comprehensive enough, thus, preferring the more detailed recommendations to be disclosed.

Findings show significant concerns about sustainability assurance in general: issues of inconsistency, lack of clarity and absence of rigour were all highlighted. These concerns led to questions regarding the fundamental meaning and aim of sustainability assurance. This position is consistent with the already documented inadequacies of sustainability assurance by prominent scholars (Deegan et. al, 2006; Ball et. al, 2000; Jones and Solomon, 2010; Humphrey and Owen, 2000; Park and Brorson, 2005; Mock et. al, 2007). Interviewees were more concerned that there is no indication, in the near future, to suggest a solution will be found for these issues. Respondents' account suggests even though there exist differences in understanding and approach between various assurance providers, the profession should come first and as professionals, coming together to ensure a certain degree of consistency is required.

Findings show regulation of sustainability assurance is generally expected as not a single respondent is in favour of the practice to continue being voluntary (in the long term). However, no respondent had any idea when assurance regulation could be imposed. There were mixed reactions to the potential impact of imminent imposition of regulation in sustainability assurance. On the one hand, development of innovative approaches in sustainability assurance will be interrupted if regulation is imposed. On

the other hand, sustainability assurance will not be considered as a serious practice without being associated with a regulatory framework. Zadek et. al. (2004) argued that regulatory requirements are fundamental in supporting the development of sustainability assurance. Findings in this study also show that stakeholders appear to appreciate the ideals behind the International Integrated Reporting Council (IIRC) and expect regulation on sustainability assurance to emerge from the efforts.

6.6 Application of Theories on Stakeholders' Perspectives

This section discusses stakeholders' perspectives on sustainability assurance with the consideration of key theoretical constructs and extant literature. The audit, legitimacy and stakeholder theories possess elements that are all relevant in explaining the various points raised by interviewees.

In the audit theory discourse as depicted by Power (1994; 1996; 1999), assurance of corporate disclosure is accompanied with various beneficial attributes. Audit programmes are institutionalized with the ability of generating comfort (Power, 1997; 1994; 1996) to act against the anxiety and doubt that are accompanied with published corporate reports. While interviewees agree that sustainability assurance brings comfort, findings suggest that the extent to which the comfort could actually be beneficial to users appears uncertain due to apparent inadequacies of the practice. The uncertainty (of benefiting from assurance) increases given the perspective of Pentland (1993) who claimed that advocates of assurance are more concerned with promoting the idea of assurance as a comfort

provider, thereby distracting the focus away from providing actual proof. This has been possible because what is considered as 'good auditing' always conforms to agreed procedures, which have apparently 'stood the test of time' (p. 29). As such, Humphrey and Owen (2000) described assurance as a practice that remains a 'craft' rather than a 'precisely codified technique' (p. 33), although the ability of assurance to add credibility is another valuable feature of the practice.

The audit theory posits that the credibility of disclosed information is enhanced through assurance (O' Dwyer and Owen, 2005; O' Dwyer, 2011; Adams and Evans, 2004; Swift and Dando, 2002). This is consistent with the views of respondents who largely attested to the possibility of improved credibility of corporate disclosures if assured. However, findings show that credibility is not always certain given the varying issues that could be selected for assurance and the approaches for conducting assurance. These differences allow parties directly involved in assurance procedures to exert influences that might not be in the best interest of society⁵⁰. Scholars (Ball et. al, 2000; Kamp-Roelands, 2002; Gray, 2007) have developed a rather critical position on the added credibility of disclosure through sustainability assurance. Interviewees' cautious expressions over the extent that credibility assurance brings to sustainability reports have done little to abate the criticisms raised by scholars. Part of the perceived credibility of assurance is the recognition of companies' willingness to allow their internal documents and processes to

⁵⁰ In accordance with the social accounting project (Gray et. al, 1996; Gray 2002; Medawar, 1976; Power, 1991)

be scrutinised by external third parties, thus promoting the idea of transparency.

Proponents of the audit theory assume that assurance processes enable companies' activities to become more visible to the public as transparent members of society (Power, 1994). Hence transparency is considered as a core component of the audit theory and a major driver in promoting sustainability assurance (Owen et. al, 2000; Power, 2000). This is reflected in the views expressed by a large majority of respondents. According to findings, the willingness of companies to demonstrate qualities of transparency through assurance is one of the most notable feature respondents appreciate. While the association between assurance and transparency has previously been discussed (Edgley et. al, 2010; O' Dwyer and Owen, 2005; Ball et. al, 2000), findings suggest that stakeholders still have second thoughts about claiming companies are transparent in their sustainability activities by assuring their reports. Respondents generally believe that companies still have material sustainability issues external stakeholders are not properly informed about, as the suggestions to 'hidden agendas' were made explicit. The consistent absence of clarity in certain areas – such as scope, actual responsibilities of assurance providers and essence of management letters – all culminates to serve as a disadvantage towards demonstrating transparency in sustainability assurance practices. These voices stressing the limited transparency exercised in sustainability assurance are only echoing previous sentiments that powerful economic organizations remain weak in discharging accountability (Humphrey and Owen, 2000; Ball et. al, 2000; Power, 2003; Gray 2010; 2001; 2007; Unerman et. al, 2007).

A criticism of the audit theory on its ability to promote transparency suggests that it has succeeded in making corporate activities increasingly private and invincible (O' Dwyer and Owen, 2005; Power, 1994; Roberts, 2009). The structures in place have not been effective in bringing substantial confidence in society as the roles of management and assurance providers in assurance processes are becoming increasingly unclear (Ball et. al, 2000). As such, the state of assurance practices was branded as 'a paradox' (Power, 1994, p. 21). Considering this, the caution expressed by respondents could partially be justified, as they claimed that users should be careful when dealing with assurance statements. The transparency emphasised in sustainability assurance engagements appears to require further delineation as transparency of assurance processes and transparency of assurance findings needs to be distinguished to the extent that users can identify and understand the two interrelated components. This will build confidence in users of the reports and ensure necessary elements within the audit function do not remain hidden from public view. However, the ambivalence of transparency (Roberts, 2009) does not appear to indicate that sustainability assurance is currently able to expose the complexity of organizational reality.

The audit theory recognises the possibility of expectations due to the different parties involved, this resulted in the emergence of the audit expectations gap⁵¹. The expectations gap in relation to this study suggests

⁵¹ The expectations gap remains a revered measure for an objective assessment of audits (Porter and Gowthorpe, 2004; Porter, 1993; Hooghiemstra and Van Manen, 2004; Deegan and Rankin, 1999; Power, 1997), including sustainability assurance (Kamp-Roelands, 1999; Adams and Evans, 2004; Urzola, 2011; Deegan et. al, 2006)

there is a difference of opinion regarding the roles and functions of carrying out sustainability assurance between the party producing assurance statements and the party using assurance statements (Deegan and Rankin, 1999). Based on the findings, the expectations of different user groups on sustainability assurance appear to vary. This results in a challenge for assurance statements to satisfy the expectation needs of a wide variety of users. The study by Urzola (2011) also identified a large degree of expectations gap in sustainability assurance from the perspectives of different stakeholder groups.

Efforts to assist in managing the expectations gap were elucidated by interviewees when they stressed the need for more clarity, consistency and dialogue in assurance procedures. Deegan et. al. (2006) emphasised the need to present assurance statements as clearly as possible to reduce the expectations gap, while Adams and Evans (2004) called for more consistency as well as highlighting the value of entrusting responsibility to external participants through dialogue within assurance processes. Meeting the expectations of users would prove advantageous and serves to follow Power's (1999) notion of 'upward accountability' (p. 127). However, findings show that there are significant impediments to overcoming sustainability assurance expectations gaps due to the absence of indications to suggest assurance providers would shift their primary focus from management interests to societal interests in assurance processes (Swift and Dando, 2002; Logsdon and Lewellyn, 2000). The continued presence of expectations gaps in sustainability assurance will diminish the confidence of stakeholders on the practice if proper and effective measures are not taken. An approach that is considered to have

a substantial influence in dealing with expectations gap is the commitment to conducts that are publicly perceived as legitimate (Holm and Zaman, 2012; Power, 2007).

A key component of legitimacy theory that enables companies and their activities to be regarded as legitimate is based on the perception of how those activities are viewed by 'relevant publics' (Dowling and Pfeffer, 1975; Gray et. al, 1996; O' Donovan, 2002; Mathews, 1993). 'External perceptions' are crucial in ensuring legitimate status and legitimating efforts of companies are upheld (Neu et. al, 1998). Findings from the perspectives of interviewed stakeholders about the general recognition and appreciation towards sustainability assurance are indicative of its legitimating capabilities. All interviewees associated sustainability assurance with a range of qualities that adds value to parties involved, it suggests that assurance is perceived as a legitimate practice. Hence, corroborating the opinion of Power (1996) that assurance reports are a 'symbol of legitimacy' (p. 310), whereas Richard and Dowling (1986) illustrated the importance of symbols as providing continuity in society based on 'recursively clarified social values' that are closely linked to action and evaluated critically by the relevant publics.

The issue of concern with regards to legitimacy is that if relevant publics come to realise that aspects associated with sustainability assurance are not used to pursue the interests they are purported to deliver (O' Dwyer and Owen 2005; Owen et. al, 2000), it will have an adverse effect on the practice thereby diminishing its perceived legitimate status. Based on the argument by Bebbington et. al. (2008), sustainability assurance could

merely be a risk management tool. Hence, there is less focus on external stakeholders' expectations and more on issues that appear to pose a risk to companies. As such, findings indicate that companies implement processes to further their cause by exerting influence over assurance procedures - managerial capture (Humphrey and Owen, 2000; Ball et. al, 2000; Edgley et. al, 2010; Adams and Evan, 2004). Exactly how companies exert their influence in assurance is unknown to interviewed stakeholders, but it is quite obvious that the challenges and questions raised about the practice by respondents would be quite different if 'true accountability' (O' Dwyer and Owen, 2005) were pursued.

It should not be ignored that assurance providers are also in a position to exert their influence in sustainability assurance – professional capture (Smith et. al, 2011; Power, 1999). This becomes more complex in determining the specific party responsible for hindering the course of 'stakeholder-centric sustainability assurance' provision (O' Dwyer and Owen, 2007). Since findings indicate that assurance providers and reporting companies operate too closely and assurance providers do not appear to be 'overly critical' in order to avoid damaging the relationship they have with respective companies. It seems plausible that both parties could be responsible for exerting their influences in assuring sustainability reports (otherwise known as capture); or if only one party is responsible, the other party should be aware, which could be construed as acting in support of the other party. This is inconsistent with the notion of corporations acting as legitimate members of society based on the description provided in legitimacy theory (Gray et. al, 1996; Deegan, 2014). If legitimacy of meaningful assurance has any chance of being built

and sustained, key tenets of accountability (Owen et. al, 2000; Grey et. al, 1996; Power, 1991) should be intrinsically employed, where principles of civic dialogue, discourse and stakeholder empowerment are upheld (Power, 2007). Findings from the perspectives of stakeholders suggest that while legitimacy theory assists in understanding the collective value of sustainability assurance, the theory is significantly less able to explain the individual concerns raised by interviewed stakeholders.

The stakeholder theory strongly advocates and encourages consideration of stakeholders within corporate activities (Roberts, 1992; Philips, 1997). Stakeholders are predominantly the users of assurance reports and are emphasised to have a voice in assurance processes (Edgley et. al, 2010; Power, 1994). A large majority of interviewees were strongly in support of assurance engagements that consider the impact of corporate activities on a wide range of affected stakeholders. This position is compatible with the argument in the normative branch⁵² of the stakeholder theory. Only a few respondents favoured the consideration of sustainability assurance as a practice that should focus on economic and organizational-centered performance, in line with the managerial branch⁵³ of the stakeholder theory. However, findings indicate the acceptance by respondents that current assurance engagements do not focus on assessing the impacts of companies' sustainability activities on a wide range of affected

⁵² The normative branch of the stakeholder theory argues for a much more broader approach to business conducts that considers and addresses the impact of corporate activities on all relevant stakeholders (Deegan and Unerman; 2011; Deegan and Blomquist, 2006).

⁵³ The managerial branch of stakeholder theory suggests corporate activities are primarily driven by organizational-centered perspective that focuses mainly on economically powerful stakeholders for survival (Freeman et. al, 2010; Donaldson and Preston, 1995; Clarkson, 1995)

stakeholders (normative branch). There is an argument that companies have good reasons for narrowing down the focus of assurance with the expectation of improving over time.

Proponents of stakeholder theory also suggest that stakeholder involvement could assist in advancing sustainability assurance, where scholars like O' Dwyer and Owen (2005); Owen et. al. (2000); Thompson and Bebbington (2005); Power (2007) pointed to the significant benefits of including stakeholders in assurance processes. To a large degree, findings in this study concur to the scholarly perspective on this argument. Given the large number of possible stakeholders, the challenge as voiced by most respondents is getting the 'right' stakeholders to participate. Interviewees claim stakeholders involved in assurance must be 'experienced, recognised, respected and relevant' for the value of their contribution to be attained. This is consistent with the findings in the study by Urzola (2011) who insisted that the 'representatives of stakeholders must be credible, knowledgeable and independent' (p. 308). Finding stakeholders with these qualities might not be an easy task but Power (2007) stressed the importance of involving stakeholders that are 'legitimate representatives of society and convincing dialogue partners' (p. 139).

The involvement of stakeholders should assist assurance providers in generating assurance evidence or provision of information to ascertain the veracity of claims, although, interviewees were against the idea of involving stakeholders purely for the purpose of assurance because it appears superficial and seems like a 'tick box exercise'. Findings show a

preference of stakeholders' established contact with companies towards commitment to communicating and collaborating on regular business operations. Findings also indicate support for stakeholders to at least have an idea of companies' strategies as well as being active in deciding issues to be assured. This is consistent with the notion of stakeholder empowerment scholars such as Parker (2005); Medawar (1976); Manetti and Toccafondi (2012) O' Dwyer and Owen (2007; 2005) would want to see happening in business environments.

While the collaboration between companies and stakeholders would be advantageous to both parties, there are underlying issues to consider. Findings suggest that the constant contact between companies and stakeholders who could participate in assurance engagements would infringe their ability to be independent when involved in assurance engagements. Also stakeholders might be unwilling to provide information that could cast companies in a negative light, which might disrupt their existing relationship. The established contact might be an opportunity for companies to influence their perspectives on stakeholders, thus having them under their control. Greenwood (2007) argued that companies and stakeholders are not of equal status, therefore, the terms of any collaboration between the two is set by the more powerful party, which happens to be the companies, in most cases. Occurrence of such instances significantly undermines corporate responsibility given that companies are using mechanisms of social accountability to promote private interests (O' Dwyer, 2003; Owen et. al, 2001).

Proponents of the stakeholder theory encourage companies to manage their relationship with stakeholders (Ullmann, 1985), where stakeholder engagement is considered as an effective mechanism for achieving stakeholder accountability (Manetti and Toccafondi, 2012; Deegan and Unerman, 2011; Unerman et. al, 2007; Sloan, 2009). Findings suggest that respondents regarded assurance of stakeholder engagement disclosure as important, but the limited level of actual stakeholder engagement assurance raised different views. Similar to the identified qualities of companies associated with sustainability issues in extant literature (Kolk, 2010; Adams, 2002; Urzola, 2011), respondents revealed size and sector of companies appear to be relevant in evaluating the extent to which companies assure their stakeholder engagements. This perspective might encourage less attention on smaller and less environmentally sensitive companies, even though the impact of their collective activities could account for considerable sustainability-related consequences.

There was apparent dissatisfaction amongst interviewees about the perceived quality of stakeholder engagement information in sustainability reports, which they argued could make it difficult for assurance to be discharged. Interviewees complained about the perceived absence of a formal or standardised approach to stakeholder engagements while it is believed that top management do not consider stakeholder engagements within their priorities. Different parts of companies might engage stakeholders, but findings show that most companies do not have a centralised system where it is being reviewed and encouraged across businesses. The study by Urzola (2011) argued that one of the main obstacles of stakeholder engagement assurance is the high cost

companies have to endure which might drive them to renege from its commitment. In addition, companies have to face the challenges of ensuring these practices are properly implemented as suggested by Jones and Solomon (2010). Based on the findings from stakeholder views, the stakeholder theory has assisted in demonstrating that sustainability assurance does not necessarily address the needs of a wide range of stakeholders. Furthermore, findings indicate that the influence of stakeholders in affecting the current state of sustainability assurance towards ensuring enhanced stakeholder accountability in the practice is weak.

6.7 Conclusion

In this chapter, the third research question of this study was discussed which deals with the stakeholders perspectives on the state of sustainability reporting assurance practices in the UK. The views of stakeholders were classified into three main groups. First, the perceived values associated with assuring sustainability reports were discussed. Stakeholders confirm that there are numerous beneficial values associated with assuring sustainability reports, such as enhanced credibility, comfort, confidence, and willingness of transparency as well as the consideration of sustainability as a serious business issue. These are values that are supported within the audit theory, as characteristics of what audits are able to achieve. A key finding from the perspective of interviewed stakeholders is that the benefits users gain from assurance of sustainability reports are not certain, based on the various concerns raised. The strong caution expressed by interviewees generally reflect the

extent to which the complexity associated with sustainability assurance means issues could easily be misinterpreted due to the apparent absence of rigour, clarity and consistency.

Second, findings reveal stakeholders' areas of relevance in sustainability assurance. The scope of assurance is a major area of interest to interviewed stakeholders, but there are issues of contention that raise questions around decisions on assurance scope which remains generally unclear to stakeholders. Assurance guidelines are considered as an important part of discharging assurance but the availability of more than one renowned guideline attracted mixed views from interviewees, where the ability for the guidelines to thoroughly address sustainability assurance issues appear to be debatable. Stakeholders also stressed the relevance of independence in assurance but are not entirely convinced about the extent of independence displayed in assurance engagements. Legitimacy theory is useful for assessing interviewees' areas of relevance in sustainability assurance, which were considered as core elements that influences the legitimacy of the practice.

Another area of relevance is the consideration of stakeholders in assurance processes. The inclusion of stakeholders in assurance was highly encouraged, with both direct and indirect approaches of involving stakeholders gaining favourable recognition. But getting hold of the 'right' stakeholders and agreeing on the involvement capacity of every stakeholder is crucial. Assurance of stakeholder engagement practices of companies was also endorsed, as companies with specific attributes (size and sector of operation) had a higher degree of expectation to deliver in

this area. Interviewees were not impressed with the current state of stakeholder engagement practices, reporting and assurance. Even though corporations undertake numerous stakeholder engagements activities, the value of its contribution from a sustainability assurance perspective remains uncertain. In response to the state of stakeholder engagement assurance, interviewees suggested the stakeholder panel exercise as a way of getting relevant stakeholder views to complement assurance (O' Dwyer, 2011). The perspectives of interviewees on stakeholders in sustainability assurance proved to be consistent with aspects in the stakeholder theory.

Third, stakeholders' perspectives on sustainability assurance areas of improvement were considered. Findings show the need for reporting companies and assurance providers to alter or change certain aspects in order to ensure more effective assurance engagements. For reporting companies, they have to ensure content of their reports, supporting documentation and underlying processes are capable of withstanding rigorous assurance procedures with more focus on material issues. For assurance providers, the need for more control and scrutiny over assurance engagements was emphasised. Assurance providers should make more effort for the practice to embody the key principles of accountability, as it is promoted to offer.

Assurance providers should find ways to ensure questionable aspects of assurance statements are minimised. Their presence encourages references of sustainability assurance as an image management tool due to the possible high degree of influence exerted by companies in

assurance processes, as perceived by interviewees. These elements of 'capture' (Smith et. al, 2011; Edgley et. al, 2010; Ball et. al, 2000; O' Dwyer and Owen, 2005; Swift and Dando, 2002) have the ability to pervade across the whole practice of sustainability assurance, thus diminishing its value.

Assurance providers have a key role to play in promoting the relevance of sustainability assurance as a profession by eliminating elements that seem to suggest they are primarily driven by commercial interests. Regulation of sustainability assurance is necessary to support its position as an established practice, but the regulation does not appear to be forthcoming in the near future. Key members of society who have the ability to influence management behaviour are vital to ensuring assurance continues to be discharged and its quality improved (Urzola, 2011).

Findings in this chapter, from the views of external stakeholders, serve to indicate there are wider implications for the practice of sustainability assurance based on its current state. These issues are considered in the final chapter of this study, which follows next.

Chapter Seven: Summary and Conclusions

7.1 Introduction

This chapter focuses on presenting the main findings and concluding remarks of this study, also wider implications across different relevant areas within the field of sustainability assurance are given due consideration. The chapter is structured as follows: the next section presents the main research questions of the study followed by a brief review of the methods used to collect data for this research in section three. Section four is a summary of the key findings from the empirical analysis of the data gathered in this research study. Discussion of findings with consideration to theoretical frameworks is covered in section five. Section six concentrates on the implications and recommendations of the collective findings with attention given to relevant parties that are affected by the continued existence of the sustainability assurance market. Section seven outlines the contributions of this study with regards to the sustainability accounting literature followed by limitations of the study and areas of further research in sections eight and nine respectively.

7.2 Research questions

Sustainability reporting assurance has been growing for years and the UK is recognised as one of the leading countries in its practice. However, certain areas within the practice remain unclear and are accompanied

with varying elements. As a result, this study aims to provide an expanded understanding of sustainability reporting assurance practices with particular focus on key elements and issues associated with the practice. As such, an examination of sustainability assurance of UK companies is undertaken to identify the elements and trends in the practice by answering the first research question of this study, posed as: What is the nature of sustainability reporting assurance in the UK?

In order to further understand the essential components of assurance statements, the perspectives of assurance providers were obtained. Since assurance providers are directly involved in sustainability assurance processes, decisions taken as part of every engagement leading up to final assurance statements are crucial. Therefore, assurance providers' participation could assist in understanding more about their roles and dynamics of the practice. Particular attention on the variances observed in assurance statements served as an area of focus given that they have the ability to affect accountability, transparency and the audit function in assurance engagements. As such, the second research question of this study is: Why are the variances of sustainability reporting assurance associated with the respective roles of assurance providers in the assurance processes?

Stakeholders are considered as the audience of sustainability assurance reports, therefore, the perspectives and opinions of different stakeholders are relevant in examining the state of sustainability assurance. This provides an opportunity to obtain views on various aspects, concerns and expectations with regards to the practice from an external perspective. As

such, the third research question of this study is structured as: How do stakeholders perceive assurance practices of sustainability reports?

7.3 Methodology and Method

The important role of accounting in society has encouraged contemporary research approaches in the field to adopt a pragmatic view of the world (Gray, 2002). This has enabled the understanding of phenomena from the perspectives of key parties, which is consistent with the interpretivist methodology (Guba and Lincoln, 1989). Different approaches were employed to ensure that various forms of data were generated from multiple relevant sources (Bryman and Bell, 2007). As such, this is an empirical mixed-methods research aimed at explaining key aspects of sustainability assurance from notable perspectives. This study is composed of a quantitative stage and a qualitative stage as a way of investigating sustainability assurance from different angles. This research is conducted in three parts; the first part is the quantitative stage, which consists of the content analysis of assurance statements by constituent companies in the FTSE350 index (first research question). The remaining two parts of the research constitutes the qualitative stage, which employed a semi-structured interview approach with a focus on assurance providers (second research question) and stakeholders (third research question) representing parts two and three respectively. The combined findings of the three major components of this research collectively provided answers to the aims and objectives of this study.

7.4 Summary of study findings

The findings in this study are spread across Chapters Four, Five and Six. The key findings are presented according to the respective research questions below.

7.4.1 Content analysis of assurance statements

Research question one: What is the nature of sustainability reporting assurance in the UK?

Findings from the content analysis of assurance reports show that the large majority of FTSE350 companies (81%) do not assure their sustainability reports, which supports its position as an emerging practice. However, the 19% of companies that assure their sustainability reports accounted for 73% of the total market capitalization of all companies in the FTSE350 index. These findings are consistent with the literature that large companies (at least in terms of market capitalisation) are more associated with sustainability issues (Kolk, 2010; Gray et. al, 1995; KPMG, 2008). Companies operating within the Oil & Gas and Utilities industries showed the highest frequency of assuring sustainability reports, again consistent with findings in the extant literature (Simnett et. al, 2009; Kolk, 2010; Patten, 2002). Both accountant and non-accountant assurance providers are actively participating with PwC, Ernst and Young and Corporate Citizenship, found to be the leading providers in the sample. There is an apparent trend in the assurance approach adopted by accountants and non-accountant assurance providers. This resulted in

identifiable differences in assurance statements that are associated with the two assurance providers' groups (Deegan et. al, 2006; Urzola, 2011; Simnett et. al, 2009). For instance, accountant assurance providers have a greater tendency to address their assurance statements, but they are highly unlikely to be addressed to external stakeholders. Non-accountant assurance providers are significantly less likely to address their assurance statements, but the majority of statements by them are addressed to stakeholders.

However, there are certain key elements that appear across assurance statements by the different groups of assurance providers. The assurance guidelines, assurance independence, the scope of assurance work undertaken and conclusions are all common features across both accountant and non-accountant assurance providers. Nonetheless, a closer investigation reveals that these common features of assurance are significantly dissimilar (Deegan et. al, 2006; O' Dwyer and Owen, 2005). Assurance statements reveal that external stakeholder involvement appears to be considered only to a relatively small degree. The assurance of stakeholder engagement practices of companies also attracted minimum consideration, even though disclosure of stakeholder engagement activities occupies a large portion of sustainability reports. These are the type of issues that raises questions about the practice of sustainability assurance, which the statements alone are not capable of answering adequately. Therefore, alternative methods for building further understanding on sustainability assurance were subsequently utilised. The key findings as a result of the methods are discussed next.

7.4.2 Interviews with assurance providers

Research question two: Why are the variances of sustainability reporting assurance associated with the respective roles of assurance providers in the assurance processes?

In the qualitative stage of this study, investigating assurance through the views of assurance providers was crucial in gaining alternative perspectives that require further understanding with regards to the practice. All interviewees agreed that sustainability assurance brings certain added value benefits that can be attributed to both internal management and external stakeholders (Edgley et. al, 2010). Nevertheless, a large number of assurance providers expressed concerns over the practice. Findings indicate that there are different associated meanings of sustainability assurance, which influence the purpose and approach of commissioning and discharging the practice. Thus, assurance statements are not similar, which makes it difficult to sustain clarity and consistency.

Findings from the general perspective of assurance providers suggest reporting companies normally decide assurance scope (O' Dwyer and Owen, 2005; Urzola, 2011). It is the responsibility of assurance providers to challenge assurance scope outlined by companies, but interviewees' perspectives failed to demonstrate instances where challenging companies originally outlined assurance scope resulted in a major shift for any assurance engagement. The level of challenge displayed by assurance providers does not generally appear to be rigorous. The assurance scope is an essential part of every engagement as findings show it impacts upon other vital aspects of the process. The level of assurance, the guidelines

employed, and evidence collected are all important elements of assurance that are affected by the decision on the assurance scope. There was considerable regard for the two main assurance guidelines (ISAE3000 and AA1000), with slightly more support for ISAE3000 as findings suggest that the status of AA1000 has dropped in recent years. The independence of assurance providers is considered as a key part of assurance engagements, but findings indicate that the concept of independence in sustainability assurance is not very clear. Also the exact role of assurance providers in maintaining their independence is another issue that requires further consistent clarification. Evidence obtained has a great influence on the outcome of assurance engagements as findings reveal documents are the most preferred evidence required for assurance. However, the findings by the large majority of interviewees show significant challenges associated with assurance evidence collection primarily due to the poor quality of data, the state of companies' processes or the particular issues being assured.

Assurance providers are strongly in support of stakeholder involvement in sustainability assurance engagements. Direct stakeholder involvement is welcomed by many assurance providers but seems to attract considerable concerns about investing additional time and effort for completing the tasks involved. As a result, most assurance providers had more support for indirect stakeholder involvement. Findings indicate that indirect stakeholder involvement in assurance has a greater tendency of generating 'hard evidence' that can contribute to verifying accuracy of statements and claims in reports. Assurance of stakeholder engagement practices of reporting companies attracted favourable responses from

assurance providers, although, findings suggest the processes and methodologies of companies' current stakeholder engagement practices are unsatisfactory as assurance providers questioned its effectiveness. This creates major challenges in assuring stakeholder engagement information, thus, leading to its minimal appearance in assurance statements. Findings reveal assurance providers expect companies to improve their approach to stakeholder engagement, which could aid in proliferating its assurance.

Findings in relation to the future of sustainability assurance indicate that assurance providers are optimistic that there would be improvements in the practice. However, according to a large majority of interviewees, the key areas that require improvements are not under the control of assurance providers. Reporting companies have to alter or improve their practices for the possibility of discharging more effective sustainability assurance to be enhanced. The majority of assurance providers explicitly called for the addition of more indicators to be included in assurance. This will enable assurance providers to broaden their assurance expertise over different areas of corporate activities. The management letter is supposed to be a confidential medium of communication between assurance providers and reporting companies, where detailed findings are presented to improve companies' sustainability practices based on recommendations outlined. Interestingly, findings indicate that assurance providers complained about the treatment of management letters by companies. The interviewees suggest that the attention given to management letters on how sustainability performance could be improved appears to be minimal. There is an acceptance by assurance

providers that regulation of the practice is not forthcoming in the near future, although integrated reporting through the IIRC appears to be key in bringing forth regulatory developments in sustainability assurance. An interesting finding is the revelation that assurance providers do not communicate with each other on issues around sustainability assurance. The implication of this could be regarded as one of the reasons why assurance engagements continue to be discharged in a dissimilar fashion.

7.4.3 Interviews with stakeholders

Research question three: How do stakeholders perceive assurance practices of sustainability reports?

The third part of this study consisted of conducting interviews with stakeholders in addressing the third research question. The views of stakeholders serve to build an idea of their perception around the state of sustainability assurance practices. According to all stakeholder interviewees, assuring sustainability reports is accompanied by numerous benefits such as added credibility, accuracy, confidence and companies' willingness in demonstrating qualities of transparency. Stakeholders were keen to stress that the benefits associated with assuring sustainability reports are not certain. This caution came as a result of the varying nature of sustainability assurance and the contrasting issues assurance statements appear to cover. To an extent, assurance could be of little or no value to certain stakeholders if information they consider as relevant is not included in the procedure. All interviewed stakeholders expressed concerns surrounding the value of assurance, which serves as an indication of the uncertainty assurance statements' users face regarding the level of value it provides.

Findings from the perspective of interviewed stakeholders show a desire for change in the approach to assurance scope. A large majority of the interviewees complained about the transparency around assurance scope. While stakeholders appear to accept that it is unlikely for companies to assure entire reports due to various challenges, they remained curious about areas not assured and the criteria for selecting issues and sections that are assured. Interviewees argued that companies could successfully manipulate assurance scope, due to the perceived influence they have over the process. Findings reveal stakeholders are currently more supportive of a limited level of assurance as it is more commonly applicable to the state of companies' perceived sustainability performance. Stakeholders demonstrated acclaim towards assurance guidelines as a means of ensuring 'comparability' and 'consistency' in assurance engagements. The majority of interviewees expressed considerable reluctance in their choice of a preferred assurance guideline. This is based on the position that companies' disclosure and purpose of assurance have a considerable effect on the assurance guideline to apply.

With the value of independence in sustainability assurance, interviewees had mixed views on the state of its implementation. Findings show there are stakeholders who appear to be satisfied with the independence expressed in assurance statements. Other interviewed stakeholders are not satisfied with the quality of independence displayed in assurance processes. The perspectives of stakeholders also revealed variances in the perception of independence. Having associations with companies being assured (O' Dwyer and Owen, 2005), whether through advisory services or

financial assurance, seemed acceptable to some respondents, while others subscribe to the notion of having no dealings with reporting companies.

Findings show that stakeholder involvement, both directly and indirectly, is generally a highly regarded feature in sustainability assurance. The contribution of external stakeholders in assurance processes strengthens the materiality and responsiveness aspects of corporate performance. Although findings suggest locating the 'right' stakeholders might not always be an easy task, interviewees preferred continuous stakeholder involvements, instead of specifically for assurance purposes. There were calls for companies to employ innovative approaches that will ensure more stakeholder involvement and assurance of stakeholder engagement practices. Based on the account of interviewees, companies' conducts on stakeholder engagement needs refinement as its current state is preventing effective assurance in the area. The demand for stakeholder engagement assurance appears to be greater for companies with specific characteristics, such as size and sector. A stakeholder panel exercise was recommended by interviewees to assist in getting an external stakeholder assessment of sustainability reports.

Findings from the account of interviewees suggest a significant interest in publishing the entire recommendations assurance providers commonly outline in management letters. There is a general sense of agreement that management letters should remain confidential due to the sensitive information contained in the document. Interviewees commended the idea of offering feedback based on concerns they have about assurance

statements, but very few have actually done so. Interviewees expressed a desire for the level of clarity and consistency in sustainability assurance to be significantly improved. Transparency and stakeholder accountability cannot be achieved if assurance statements are not very clear and appear too different from each other (Deegan et. al, 2006). The absence of a universal meaning of sustainability assurance is an issue of concern for interviewees as it encourages continued differences of opinion on the practice within and across key parties (assurance providers, companies, stakeholders, standard setters). The introduction of regulatory mechanisms was highly recommended in the future of sustainability assurance with considerable expectation on the role of IIRC.

7.5 Discussion of findings

This section discusses the cumulative findings from Chapters Four (assurance statements), Five (assurance providers' perspectives), and Six (stakeholders' perspectives) in light of the extant literature relating to sustainability reporting assurance. Arguments within the audit theory form a key part of the discussions, but legitimacy, institutional and stakeholder theories are also composed of valuable elements that are relevant to the sustainability assurance discourse (Smith et. al, 2011; Urzola, 2011), thus they are considered in the discussion.

According to the audit theory, commissioning assurance on disclosed reports is accompanied with the principles of efficiency, quality, credibility, transparency and accountability (Power, 1994; 1996; 1999). Findings from the perspective of assurance providers and stakeholders

confirmed the important role of assurance in promoting the efficiency of sustainability performance, especially in terms of management systems and processes. But stakeholders were considerably less optimistic than assurance providers. Stakeholders are not entirely confident that improvements in efficiency of management's activities would lead to satisfying their interests. Assurance engagements involve the role of enhancing the efficiency of management's internal control systems as suggested by Manetti and Becatti (2009), but exactly how the efficiency of internal sustainability management processes enhances external accountability is yet to be addressed properly and beyond the scope of this study.

The audit theory also suggests that the ability to enhance credibility of disclosed information is a key feature of discharging audits (Soltani, 2007; Power, 1996). Findings show both representative assurance providers and stakeholders in this study admitted that assurance enhances the credibility of sustainability reports. Assurance providers were more likely to promote the credibility that assurance provision brings to sustainability reports, while stakeholders were more considerate of the possibilities that the credibility, as a result of assurance, is not certain by expressing caution that sustainability reports accompanied with assurance statements suggest enhanced credibility. The perspective of Soltani (2007) suggests that the credibility of assurance is centered around the 'subject matter' being assured, which supports the views of stakeholders regarding issues included for assurance. Making assurance subject matters more understandable assists in improving the transparency of the process.

Transparency is a common characteristic in the audit theory argument (Power, 1994; 1999; Ball et. al, 2000), due to its ability to make processes and activities less obscure. Assurance providers in this study were more comfortable associating assurance as a practice that demonstrates more transparency of the companies' conducts. Stakeholders were far less willing to associate assurance with companies being transparent to a great degree. Interviewed stakeholders generally viewed sustainability assurance as an attempt to be transparent. Findings in this study suggests that the current state of sustainability assurance is yet to provide effective transparency that makes sustainability performance of companies more visible (Robert, 2009). The systems of 'audit techniques'⁵⁴ being utilised in assurance engagements do not appear to encourage more transparency to a significant degree (Power, 1995; 1996). In other words, the level of transparency that sustainability assurance delivers might not be substantial. Hence there might be a gap between the transparency that users of assurance statements expect and the transparency in actual assurance statements.

The audit theory deals with the expectations gap that exists between users of assurance statements and the efforts of assurance providers in producing assurance statements (Kamp-Roelands, 2002; Power, 2003; Adams and Evans, 2004). The findings that emerged from the perspectives of interviewed stakeholders confirmed the presence of the expectations gap within sustainability assurance. According to interviewed stakeholders, various aspects of sustainability assurance need to be

⁵⁴ Power (1995: 325) argued that audit practices 'systematically prevent the organizational context of audit techniques to become a researchable object' thereby minimizing its ability to be transparent.

improved and/or altered. This includes the assurance scope, state of independence, application of assurance guidelines, recommendations in management letters, stakeholder considerations and relationship between assurance providers. Also, the varying expectations of different stakeholder groups with regards to assurance were identified as a challenging issue in managing the expectations gap, which assurance providers have to consider as predicted in the audit theory (Power, 1999).

Assurance providers acknowledged most of the assurance aspects raised by stakeholders that needs improvement, thereby confirming the gaps in practice. However, assurance providers were significantly less perturbed about the gaps than stakeholders. There is an indication that the improvements in assurance are not primarily focused on closing the expectations gap of the users and stakeholders as assurance providers' emphasis focuses more on having assurance statements that reporting companies accept. Thus, the interest of companies for requesting assurance, if not aligned with expectations of stakeholders, makes it difficult to address the expectations gap effectively. Ideally, the focus of sustainability assurance that serves the interest of society is more likely to minimise the expectations gap (Zadek et. al, 2006).

The respective meaning and understanding of the purpose of sustainability assurance by different parties involved in the process also contributes in shaping the expectations gap. Based on the findings in this study, respondents did not demonstrate the same perspectives on what assurance is designed to offer. This enabled the application of different approaches in assurance conduct, which leads to the variances currently

observed within the content of final statements (Deegan et. al, 2006), as well as practices that have attracted concerns about sustainability assurance, such as capture (O’ Dwyer and Owen, 2005).

The notion of capture, whether managerial or professional, poses a fundamental threat to the ideals of transparency and accountability (Smith et. al, 2011; Adams et. al, 2007; Deegan, 2014). Findings from the review of assurance statements and interviews have all provided evidence to point towards the presence of a considerable level of capture in assurance processes. Reporting companies appear to play a major role in influencing assurance engagements, which is consistent with managerial capture. The role of assurance providers in promoting sustainability assurance as a practice that assists in discharging accountability while allowing companies to exert great influence in the process is consistent with the position O’Dwyer and Owen (2005) termed as servicing the ‘paymaster’. The prevalence of such actions supports principles of professional capture due to the role of assurance providers in allowing its continued occurrence. Carrying out sustainability assurance with the influence of capture shapes the practice as one that appears to be a tool for managing the image of companies (Edgley et. al, 2010; Deegan, 2014; Urzola, 2011; Power, 1994). As such, the presence of capture in assurance supports Power’s (1999) famous criticism of ‘downward accountability’. Various scholars have discussed the existence of conducts associated with managerial capture in assurance practices (Ball et. al, 2000; Deegan et. al, 2006; Adams and Evans, 2004; Smith et. al, 2011).

A key part of legitimacy theory is the 'perception and assumption' of 'relevant parties' about the conduct of entities (Deegan, 2014). Given that legitimacy is based on the conduct of companies, interviewed stakeholders generally acknowledge the efforts of companies in terms of assuring sustainability reports. Findings suggest that the presence of assurance statements attracts certain recognisable qualities that are more likely to enhance the profile of accompanying sustainability reports by projecting a legitimate and reliable image for the company. However, stakeholders do not agree that assurance statements are certain to possess the admirable qualities they are supposed to deliver. The expression of doubt is as a result of the complex, inconsistent and selective components of assurance, which have been evidenced in the review of assurance statements. Perspectives of assurance providers also highlighted factors that result in observable differences in final statements. The findings of Deegan et. al. (2006) and Kamp-Roelands (2002) regarding the inconsistencies of assurance statements are supported, which affects the perceived legitimacy of the practice.

Based on legitimacy theory, findings in this study suggest sustainability assurance is perceived as a legitimate practice but the current state of discharging assurance is accompanied with features that relevant publics oppose and recognise as attracting negative value to the practice. Thus, meeting the expectation of sustainability assurance requires serious improvements. Following legitimacy theory, effective legitimization strategies (see Lindblom 1993 and Suchman 1995) could be adopted (Deegan, 2014) within sustainability assurance processes to ensure its value is more consistent with expectations of relevant publics. In general,

legitimacy theory contributed to an understanding of the perceived value associated with sustainability assurance. However, findings have identified various issues and practices, in which the explanatory power of the legitimacy theory is not particularly strong.

In relation to constructs within the institutional theory that suggest companies adopt similar practices as a result of isomorphism (Deegan, 2014); assurance providers are found to play a key role in actively creating more awareness, which have assisted in the growth of members within the sustainability assurance organizational field. The overall finding of this study demonstrates that key elements are generally considered when discharging assurance. This has ensured a certain degree of similarity, based on the presence of key assurance elements, which could be attributed to the role of assurance guidelines for its assistance in making these elements recognised as a 'norm' (consistent with normative isomorphism) in the field of sustainability assurance. However, the application of key assurance elements as evidenced from assurance statements and perspectives of interviewees does not universally appear to exhibit clear isomorphic patterns, thus, having an effect on the extent of its similarity and consistency. Also, the varying views of interviewees' means it is more challenging for the practice to be institutionalized. There needs to be more convergence of perspectives by relevant parties involved in assurance that goes beyond whether requirements have been complied but more on how the requirements have been complied. The institutionalization of sustainability assurance and its accompanying elements require support of active relevant stakeholders in the organizational field. The entire findings in this study suggest that while the

institutional theory has relevance in terms of highlighting the isomorphic characteristics within sustainability assurance, the isomorphic pressures towards establishing a significant level of consistency regarding the practice is currently rather weak.

The stakeholder theory promotes the considerations of stakeholders as well as their interests and needs as part of corporate activities (Deegan and Unerman, 2011; Donaldson and Preston, 1995; Freeman, 1984; Roberts, 1992). Based on the review of assurance statements, stakeholder involvement in sustainability assurance practices is generally low. Interestingly, assurance providers and stakeholders expressed desire for stakeholders' involvement in assurance processes. The perspectives of assurance providers and stakeholders could be closely related to the idea of more stakeholder consideration in business activities, even though actual assurance statements have not provided substantial evidence to support their opinions. Findings from the perspectives of assurance providers show that the extra cost of including stakeholders, the assurance scope, the level of assurance and assurance approach are factors preventing the prevalence of stakeholders' inclusion in assurance processes. The assurance of stakeholder engagement disclosure of reporting companies is very low from the review of assurance statements. Assurance providers expressed considerable support while the majority of stakeholders prefer assurance of stakeholder engagement disclosure. According to assurance providers and stakeholders, the nature of companies' stakeholder engagement disclosure, the assurance approach and decision on assurance scope are the main factors that limit general adoption of assuring stakeholder engagement disclosure.

Based on the notion of stakeholder-centric assurance, stakeholder engagement assurance has the potential to address the needs and interests of stakeholders (Adams and Evans, 2004; O' Dwyer and Owen, 2007). The analysis of materiality, completeness and responsiveness is an essential part of stakeholder engagement disclosure assurance that is deeply rooted in the AA1000AS. However, the remarks of the interviewees in this study on stakeholders are not properly reflected in assurance statements. This indicates that assurance providers in particular, do not always have the authority to enforce stakeholder-centric sustainability assurance even if they are willing to, therefore, providing more support in confirming the role of reporting companies as the controlling party in sustainability assurance. It seems impossible for a system whereby companies actively report and influence assurance could deliver the type of accountability society needs to prosper. With regard to the application of the stakeholder theory in this study, the general recognition of stakeholder considerations in sustainability assurance was apparent, but stakeholder power and influence on the practice remains significantly low.

Overall, findings from the three branches of this study (i.e. assurance statements, assurance providers and stakeholders) show that while key elements of sustainability assurance are generally recognised, the level of recognition varies across individuals and groups. Assuring sustainability reports is generally considered as a valuable practice, which has the ability to enhance various legitimate attributes associated with companies. However, there are concerns, particularly from stakeholders, about the exact value to be gained from assurance given its voluntary nature and the

high possibility of 'greenwashing'. According to the evidence presented in this study, reporting companies appear to have the most power and influence in the current state of sustainability assurance. The continuous association of capture with sustainability assurance is an unwelcome precedent, one which serves to uphold Power's (1999) view that assurance could become 'a dead end in the chain of accountability' (127). The legitimacy, institutional and stakeholder theories provided guidance in understanding the findings in this study, but due the nature of respective theories as well as the complexity surrounding sustainability assurance, the extant literature within the audit theory provided more explanations to the findings.

7.6 Implications of findings

The collective findings in this study have certain implications for various aspects of sustainability reporting assurance. On the practice in general, the results presented from the examination of assurance statements, interviews with assurance providers and stakeholders suggest the absence of a shared fundamental meaning and purpose of sustainability assurance. The qualities of added credibility, comfort, transparency and trust that are found to be closely associated with sustainability assurance are essential in supporting and promoting the practice, but they do not serve the role of comprehensively defining sustainability reporting assurance. The various understanding of sustainability assurance prevents the emergence of a universal purpose of the practice to be pursued, thus, promoting the different objectives and approaches that are currently utilised. As such, unclear and potentially confusing content are continuously present in

assurance statements. The absence of a shared understanding between and across assurance providers and users of sustainability assurance, as evidenced in this study, severely questions the current ability of the practice to discharge effective accountability and transparency.

With regards to reporting companies, assurance engagements seem to have a high degree of influence by reporting companies, which could disrupt the perceived value associated with the practice. The role of reporting companies seems beyond what is expected in assurance processes as revealed in the overall findings. This poses a great threat to the future of sustainability assurance, as it might affect the ability of sustainability assurance to gain general acceptance. There is no indication to suggest that this threat will be addressed imminently, especially with assurance providers generally appearing rather unperturbed with the situation.

With regards to assurance providers, the findings from the perspectives of assurance providers show a significantly low tendency for being critical on the state of assurance engagements. Concerns relating to the high level of managerial influence, assurance/advisory divide and guidelines are all areas that assurance providers have acknowledged their presence, but appear relatively comfortable with the situation. Assurance providers are playing a pivotal role in promoting sustainability assurance (KPMG, 2008; 2011) as a practice that promotes social and environmental accountability and transparency to society. But their perspectives have shown that more ambition is required to address the assurance concerns outlined with the intention of driving further accountability from corporate activities. The

accusation by O' Dwyer and Owen (2005) of assurance providers being subservient to their paymaster is confirmed based on the results of this study. Furthermore, based on the findings in this study, the argument that assurance providers are primarily driven by the desire of commercial interests cannot be convincingly refuted (O' Dwyer and Owen, 2005; 2007). Due to the absence of regulation in sustainability assurance, the role of assurance providers is increasingly important in ensuring not only that the practice is efficient but also that ways to address emerging challenges can be found. A network of assurance providers would seem logical as a professional exercise to ensure easy identification of unaccredited assurance providers and impose quality control mechanisms across qualified assurance providers. However, the discovery that assurance providers do not communicate with each other on sustainability assurance matters could be perceived as the extent to which they really value the practice. A continuation of this pattern may eventually result in the decline in public trust with regards to assurance providers. The current position of assurance providers as a key party in assurance processes is not very optimistic with regards to upholding principles of accountability.

With regards to stakeholders, there is a role for stakeholders in ensuring sustainability assurance is taken more seriously by both assurance providers and reporting companies. Findings show stakeholders have displayed a reasonable understanding of issues relating to assurance, which O' Dwyer (2005) compliments as an important feature in establishing arguments with companies towards reaching desirable compromises. The impact of companies' activities on society is evaluated more thoroughly by stakeholders if they are knowledgeable and familiar

with the issues. For effective stakeholder accountability, stakeholders should make more effort to participate in companies' processes as a way of holding companies to account (O' Dwyer and Owen, 2007; Urzola, 2011), a perspective echoed by interviewed stakeholders. However, holding companies to account also involves collective pressure from stakeholders by voicing concerns on the perceived inadequacies of assurance procedures, a feature that currently appears to be very weak based on the results of this study. Nonetheless, powerful stakeholder groups need to actively take actions, in a collective manner, that are capable of influencing sustainability performance of businesses.

7.6.1 Policy implications and recommendations

Findings in this study have highlighted certain important aspects of sustainability assurance that are crucial to the continuous development of the practice. As such, the key policy implications are discussed along with recommendations for improving the practice. First, the guidelines governing sustainability assurance require further attention as their capacity to address various issues within the practice needs strengthening. The guidelines should be given particular attention as they affect, inform and direct implementation and understanding of sustainability assurance. The most sought-after guidelines on assurance (ISAE3000 and AA1000) are accredited with features that evidence from this study shows are problematic. Results from the views of assurance providers and stakeholders show that the ISAE3000 systematically encourages assurance on parts or sections of sustainability disclosure, which respondents referred to as 'narrow'. Also, stakeholders pointed to the role of ISAE3000

in terms of promoting the influence of reporting companies in assurance. The AA1000 has the main aim of bringing organizational change in sustainability performance by enhanced stakeholder accountability. However, findings from assurance statements did not provide substantial evidence to suggest that stakeholder involvement or assurance of stakeholder engagement disclosure and activities have drastically improved by the adoption of AA1000, even though assurance providers expressed a desire to see such improvements.

As recommendations, the main guidelines in sustainability assurance have to provide more clarity within their requirements in such a way that assurance providers, stakeholders and reporting companies fully understand what is expected. The clarity will assist in enhancing comparability and consistency in the outcome of assurance engagements. Also, guidelines providers should endeavour to provide regular updates on their requirements due to the changing, emerging and advancing nature of sustainability issues. In addition, guideline producers should develop an improved and accessible platform for giving and receiving feedback across all relevant parties in the sustainability assurance market.

Second, reporting companies are largely responsible for initiating sustainability related practices within their management systems, which are then reflected in disclosure and assurance. However, findings from the perspectives of assurance providers indicate that reporting companies do not have a robust system for their sustainability operations and are not properly aligned with core management objectives. Meanwhile, stakeholder perspectives highlighted an absence of confidence in

companies' sustainability practices in achieving long term efficiency and benefit to wider stakeholder groups. As recommendations to reporting companies, there is a need for a more transparent approach in sustainability practices linked to clear objectives and expected outcomes. Also, reporting companies should relinquish the apparent control they have over assurance processes as the added value of transparency, accountability and credibility cannot be attained under such a setting. Based on collective findings, the role of stakeholders in assurance is virtually negligible, therefore, it is an attractive opportunity for relevant, reliable, independent and knowledgeable stakeholders to be more directly involved in the process.

Third, assurance providers usually publish assurance statements, but as the findings in this study highlight reporting companies significant control in assurance processes, it raises a fundamental question about assurance provider's actual intentions towards the practice. While it could be argued that the exact nature of reporting companies influence in assurance is not specifically addressed in any of the renowned assurance guidelines, it nevertheless remains a feature of the practice that deserves crucial attention. The application of different elements of sustainability assurance varies considerably across assurance providers as indicated in assurance statements and confirmed during the interviews. The position is more serious considering that assurance providers do not communicate with other. The implication is that different versions of assurance are promoted by a party as significant as assurance providers. As recommendations, assurance providers should have to communicate with each other. Sustainability assurance will be taken more seriously if there is a united

voice of assurance providers, as one of the core pillars of the practice. Also, assurance providers should find a way to address the level of control reporting companies have over assurance processes. The integrity of assurance is affected by their position of continuously ignoring or inability to handle such a vital issue.

Finally, the practical structure of assurance processes leaves stakeholders in a less than appealing position. The effort by reporting companies and assurance providers are acknowledged by stakeholders but the benefits of current sustainability assurance processes are not in the best interest of stakeholders. Findings from the opinion of stakeholders show that they recognise that more should be done to improve assurance but not all of them agree that they should demand for immediate improvement towards addressing their concerns. As recommendation regarding stakeholders, there is a need for stakeholders to be more involved in sustainability assurance. Even though, at the moment, stakeholders seem unlikely to play an active role in assurance processes, they could actively participate through feedback to reporting companies, assurance providers or guideline producers. Stakeholders should make the effort to develop contemporary knowledgeable about companies' activities for the purpose of not only participating in the relevant issues but also raising the issues in a formal and effective way towards attracting a response. Stakeholders should be willing to ask questions, to demand more and to ensure assurance is just not used as a marketing strategy to improve the reputation of companies and assurance providers.

7.7 Contributions to knowledge

The findings in this study add to the growing body of literature on sustainability reporting assurance. This study focused on sustainability assurance practices and issues in the UK context, thus responding to the call by Deegan et. al. (2006) for different country analysis on the practice, given its predominantly voluntary status as well as the importance of understanding assurance trends across geographical locations. The examination of sustainability assurance reports of FTSE350 companies provided an avenue to investigate the UK perspective of assurance performance. The result elicited trends and issues that are relevant to the practice in the UK and the subsequent stages of this research.

This study has contributed to the literature by eliciting the views of assurance providers through semi-structured interviews. This responds to the calls for more studies to adopt 'engagement research' approach in the field of sustainability accounting (Thompson and Bebbington, 2005; Parker, 2005; Bebbington and Gray, 2001; Bebbington et. al, 2007), in this case, by involving active participants in sustainability assurance processes (Manetti and Toccafondi, 2012; O' Dwyer and Owen, 2007; Smith et. al, 2011). While a number of studies have considered views of assurance providers, the specific contribution of this study focused on the key elements published in assurance statements. Assurance providers offered insights into their roles and opinions on contents of publicly available assurance statements.

A key contribution of this study is a better understanding of the perspectives of external stakeholders on sustainability reporting assurance practices. This has assisted in improving the understanding of stakeholder perceptions on sustainability assurance issues. The absence of stakeholder views in sustainability assurance research was an issue that Manetti and Toccafondi (2012) raised as an area of concern, which should be addressed for an enhanced understanding of the phenomenon. Stakeholder issues in assurance, particularly stakeholder involvement and assurance of stakeholder engagement activities of reporting companies have mainly been investigated through the lens of assurance statements or assurance providers. This study, along with others (Wong and Millington, 2014; Urzola, 2011), has confirmed the possibility that stakeholders can provide unique research insights to studies about sustainability assurance. Indeed, the participation of stakeholders has shown to be capable of securing valuable insights, perspectives that assist in further understanding sustainability reporting assurance. Stakeholders' participation provides an opportunity for a more advanced assessment of companies' actions in discharging accountability to society.

This study has confirmed the ability of important theories - as audit, legitimacy, institutional and stakeholder theories - to explain various aspects of sustainability assurance practices. The audit theory served as the principal theory in this study, which provided a basis for understanding sustainability assurance as well as its associated key attributes and problem areas. Legitimacy theory assisted in demonstrating that while assurance of sustainability reports is generally perceived as a legitimate corporate conduct, there are certain core aspects of the

practice that appear to seriously question its legitimacy. The continued presence of capture (managerial and professional) as well as the unbalanced understanding and application of assurance providers' independence, serves to undermine the legitimacy of sustainability assurance. The institutional theory assisted in presenting patterns illustrating the effective absence of isomorphic pressures within sustainability assurance performance of companies, enhanced by the absence of a universal approach to sustainability assurance and the apparent lack of communication between assurance providers. The stakeholder theory assisted in providing insights into stakeholder considerations in sustainability assurance processes, but pointed to the weakness of stakeholder pressures with regards to assurance practices.

All four theories have made a contribution in explaining the state of sustainability assurance in its attempt to promote accountability. The audit theory is most relevant in providing explanation to the findings, having being devised specifically for the practice of assurance or auditing, while the other theories (legitimacy, institutional and stakeholder) are instrumental in the discourse around sustainability. On this basis, the four theories play a complementary role in providing explanations for sustainability reporting assurance. Smith et. al, (2011) has previously associated legitimacy, institutional and stakeholder theories with sustainability assurance while utilising theoretical constructs within the audit literature.

7.8 Research limitations

This study is based on a three-stage mixed method approach that comprised of investigating assurance statements, assurance providers and stakeholders. The use of qualitative and quantitative methods assisted in offsetting the disadvantages associated with both approaches. However, there are a number of limitations that should be considered alongside the findings.

The research conducted is primarily focused on sustainability assurance practices in the UK; therefore, findings might not necessarily apply to conditions in other geographical locations. Sustainability assurance remains largely a voluntary activity and different countries might have their common approaches and principles for the practice. For example, a stakeholder interviewee claimed that joint audits on sustainability reports are common in some parts of the world but there is no evidence to suggest the presence of such an approach in the UK.

The nature of sustainability issues is that they always have the possibility of changing and adapting to societal or generally accepted norms and it is not clear to what extent some of the UK practices are context-specific. The data used in this study was compiled at a given time (Assurance statements of 2011 and interviews conducted mainly in 2014); as a result, generalising for different time periods might not be possible. The interviews carried out were with individuals who worked at various organizations but the capacity of their participation in this study is entirely

independent and all views shared are personal. As such, the respondents' views do not necessarily reflect the positions of their respective firms. The assurance statements examined were limited to FTSE350 companies, representing the largest group of companies in the UK; no attention was paid to companies outside the FTSE350 index as of the time of the study.

7.9 Areas of future research

The findings and observations in this study have raised some interesting issues that are beyond the scope of this study and appear to require further investigation. First, given the importance of formalised assurance standards, future research should consider investigating the role of guidelines or standard setters in sustainability assurance. The main assurance guidelines, AA1000 and ISAE3000, have made a significant contribution to the practice. Therefore, it would be interesting to gain the perspectives of representatives within the organizations that have produced these guidelines, IFAC and AccountAbility, in order to learn how these organizations influence the institutional environment for sustainability assurance. Direct access to individuals who were active in producing assurance guidelines would provide valuable insights into various aspects and processes that have gone into producing the guidelines, as well as challenges involved. They could also discuss, from an internal perspective, specific factors that brought about the need for producing respective guidelines along with the ideas that fundamentally differentiate the guidelines.

Second, stakeholder panel engagement is an area that needs further research given the absence of an in-depth understanding of the practice. While not exactly considered on the same level as assurance, stakeholder panels were present in this study along with several other previous studies (O' Dwyer, 2011; AssureView, 2008). The processes, rules, criteria and features regarding stakeholder panels are not very clear and require better understanding, especially with the number of companies that continue to utilise the practice.

Third, the cost associated with assuring sustainability reports is another interesting area of further research. Evidence found in this study suggests that the cost of discharging assurance is a major consideration for companies. Thus, an instrumental study that focuses on examining the influence and impact of cost considerations on key areas of sustainability assurance like the scope of assurance, the type of assurance provider and the level of assurance could potentially provide fascinating results.

Fourth, an extensive analysis of independence in sustainability assurance practices is needed. There is much ambiguity surrounding the state of independence in sustainability assurance, particularly, the issue of offering assurance and advisory services is one that deserves more clarity. Independence is one of the most common features in sustainability assurance and after many years of practice and research, independence should be more stable than it currently is. The implications of independence have the ability to seriously affect other aspects of assurance.

Finally, a research that focuses on the perspectives of assurance providers and stakeholders in countries outside the UK may prove illuminating. The need to identify emerging issues in sustainability assurance from the context of other countries that have a history of sustainability performance (Kolk, 2010; Simnett et. al, 2009; KPMG, 2008; 2011) will yield valuable insights. Developing and emerging countries might also be considered for a similar study, thus presenting the opportunity to create a truly international perspective on sustainability reporting assurance.

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Appendices

Appendix I

Description of evaluation template elements

Name of company- identification of a company as used by FTSE

Sector of company- the industry or sector in which each reporting company operates; this is according to the Industry Classification Benchmark (ICB) by FTSE. Industry classification have been used in previous studies (by Gray et. al, 2001; Kolk, 2010) to explore social and environmental issues, and has considerably aided in its understanding. There is a perception that industry classification is associated with disclosure of non-financial information, especially those companies whose activities have the potential to be socially and environmentally detrimental to the society.

Size of the company- size is represented by market capitalization of each company as stated in FTSE's monthly review. Findings suggest social and environmental disclosure directly relates with size of the reporting company (Gray, 2007).

Medium of disclosure- the approach to each company's social and environmental disclosure is identified. Some companies publish separate stand-alone social and environmental reports while others attach such information to their annual reports. Increasing number of companies

disclose their social and environmental information in their websites whereas most companies in the FTSE100 index engage in social and environmental disclosure (KPMG, 2008).

Name of report- while there are numerous issues related to non-financial disclosure, companies use various terminologies to name their respective stand-alone reports. This indicator captures the name used by these companies to demonstrate their type of social and environmental disclosure

Source of assurance statement- this source identifies the medium used by each reporting company to present their assurance statement. Companies attach their assurance statement within their published reports while other companies' assurance statements are available through their corporate website.

Length of assurance statement- this item describes the number of pages used by the assurance provider to present the assurance statement.

Title of assurance statement- this aspect identifies the title of each assurance statement as presented by respective companies. Assurance statements tend to be presented using different names, given that assurance practice itself is yet to be identified with a fixed, universally recognised name. Also, a title assists in identifying the nature and starting point of the assurance statement section and to clearly separate the section from other parts of the report (ISAE3000, 2005).

Name of assurance provider- this aspect captures the body that was responsible for producing the assurance statement by identifying the name of assurance provider as it appears in the assurance statement.

Addressee of the assurance statement- this element identifies the 'party to whom the assurance statement is formally addressed' (Perego, 2009). Similar to financial verification, an assurance statement needs to be directed to a specific identifiable party. Adams and Evans (2004) argue that assurance statements should include information that is material to stakeholders. Also assurance statements should involve more stakeholders since they are main the users and reason for the assurance procedure. It is therefore recommended that the addressee of assurance statements should be a stakeholder of the reporting company (FEE, 2006), while O'Dwyer and Owen (2007) observed reluctance in identifying addresses of assurance statements.

Type of assurance provider- category of the body responsible for the assurance statement is identified in this item. Literature indicates that the inherent level of quality associated with a given assurance statement might significantly be influenced by the type of assurance provider (Mock et. al, 2007; Perego, 2009). Therefore the type of assurance providers enables users of reports in perceiving the quality of assurance statements. Categories of assurance providers have previously been considered when investigating assurance statements (Simnett et. al, 2009; Perego, 2009; O'Dwyer and Owen, 2007; KPMG, 2005 and 2008, and Ball et. al, 2000), which have resulted in identifying the various categories of assurance providers. This study uses these categories that include: accountants,

consultants, certification body, individuals and others. The accountants in this context are mainly dominated by the Big Four accountancy firms, but other accountancy firms are also considered, however unlikely. Consultants are bodies with specific specialization in CSR, environmental, risk management and other sustainability issues. Certification bodies provide expert certification services. While individuals refer to persons who provide professional external assurance services and does not belong to any recognised assurance provision firm.

Level of assurance pursued- this determines the level of assurance pursued in the assurance engagement. An assurance engagement can achieve high/reasonable level of assurance, moderate/limited level of assurance or a combination of both on different subject matter within a single assurance statement (AA1000AS, 2008). The purpose of pursuing a certain level of assurance is to reduce the assurance engagement risk to a desired level (ISAE3000, 2005). The level of assurance have been investigated in literature by O'Dwyer and Owen (2005 and 2007) and Deegan et. al, (2006).

Guidelines used in assurance process- major guidelines producers of sustainability reporting assurance (AA1000AS, 2008; ISAE3000, 2005; FEE, 2002) all recommend that assurance providers should specifically make reference to the assurance guidelines that has been adhered to, in the assurance statement. This approach enables users to easily understand what was carried out in order to make informed decisions. Manetti and Bacatti (2009); Blanco and Souto (2009); Deegan et. al, (2006) all considered guidelines used by assurance providers in their investigation of assurance statements.

Address of the assurance provider- this area captures the location of the party responsible for assuring the report. Providing the location of the assurance provider within the assurance statement serves to assume responsibility for the assurance engagement. This position is supported by AA1000AS (2008); FEE (2002) and ISAE3000 (2005).

Date of the assurance statement- this element shows the date of the assurance statement as dated by the assurance providers. The date allows users to clearly know when the assurance statement was issued to ascertain that the assurance provider have considered relevant subject matter issues that occurred up to the given date. Dating assurance statement is recommended by renowned guidelines on social and environmental reporting assurance (AA1000AS, 2008; FEE, 2002; ISAE3000, 2005).

Independence of assurance provider- Independence is an important element in all forms of assurance. In sustainability reporting assurance, a statement of clear independence by the assurance provider assists in clearing suspicion of users that outcome of the engagement has not been unduly influenced in favour of the reporting company (FEE, 2002). The independent opinion in an assurance statement increases credibility of the engagement and the report (ACCA, 2009). Independence of the assurance providers should be exercised right from the beginning of the engagement when 'agreeing on the terms of the engagement' (ISAE3000, 2005) so as to ensure all decisions taken in the assurance process are independently decided by the assurance provider. On the basis that the assurance provider

has the professional skills and competences required to appropriately carry out assurance engagements.

Ball et. al, (2000) argues that one of the most identifiable indicator of quality in an assurance statement can be viewed from the degree to which the assurance provider describes the level independence exhibited. A study by Accountability and Oxfam (2009) contributed to the argument by suggesting that assurance providers should provide evidence that point to their independence as part of reporting in all their social and environmental audit engagement. However, there are threats to independence, which can be as a result of prior relationship with the reporting company or relationship with individuals or other companies that can influence the assurance process (FEE, 2002). Also, Adams and Evans (2004) identified a rise in audit expectation gap due to the threats posed by independence. Therefore, assurance providers have to use their 'skills and competencies of profession scepticism' to 'identify and apply safeguards against these threats' (ISAE3000, 2005).

The significance of demonstrating assurance provider's independence is supported in the AA1000AS (2008) guideline, which stated that 'an assurance provider shall not accept an engagement if it will be unduly limited by its relationship with the reporting organization or its stakeholders in reaching an independent and impartial statement. The assurance provider shall make a public statement of independence and impartiality'. The ISAE3000 (2005) and FEE (2002) guidelines also supported this position. Studies by Ball et. al, (2000); O'Dwyer and Owen (2005 and 2007)

considered independence of assurance providers in assurance engagements.

Scope and objective of the exercise- this aspect considers the scope and objective of the assurance engagement, which also constitute planning and execution (Park and Brorson, 2005). AA1000AS (2008) advice assurance providers to consider material issues so that information provided is useful to users. Scope of assurance is usually based on the type of sustainability information the reporting company has disclosed, mainly social and/or environmental. Agreeing on scope of assurance exercise between the reporting company and the assurance provider is highly recommended, before the assurance exercise commences (ISAE3000, 2004). Particular elements to look out for are a clear description of scope of the engagement to identify what areas were reviewed and which were not.

Assurance work undertaken- ISAE3000 (2004) requires assurance providers to access every subject matter to enable selection of a suitable criterion for evaluating or measuring the subject matter, obtain evidence and finally prepare an assurance report. The criteria used are directly related with review of data in the report, review of data collection processes, review of supporting evidence, site visits amongst other elements. O'Dwyer and Owen (2007); CPA Australia (2004) considered scope and objectives of the exercise in their studies and all argued for the involvement of stakeholders in assurance processes.

Stakeholder Involvement- this item captures the type and form of stakeholders who have been involved in the assurance process. Adams and

Evans (2004) stakeholders should be involved when assuring sustainability reports to add credibility and user confidence to the overall report. FEE (2002) supports this opinion and the AA1000AS (2008) guidelines provide particular attention in ensuring stakeholder's needs are considered in the process of assuring social and environmental reports. The AA1000AS (2003) outlined three principles for assurance providers to use in reaching a conclusion, they are; materiality, completeness and responsiveness. Materiality requires assurance providers to note if corporate sustainability reports contains information that is required by stakeholders to be used in making informed judgments. Completeness requires assurance providers to evaluate the extent to which reporting company has identified and understood material aspects of sustainability performance, including stakeholders. Responsiveness principle insists assurance providers should evaluate the extent to which reporting company have responded to stakeholders concerns (AccountAbility, 2003).

Specific details like the involvement of stakeholders in the assurance process, the group of stakeholders involved and the form of engagement with stakeholders are considered. Also, issues of materiality, completeness and responsiveness are noted. The involvement of stakeholders in assurance processes has been investigated in literature (O'Dwyer and Owen, 2007; O'Dwyer et. al, 2005).

Nature of opinion, recommendation and conclusion- this aspect captures the main contents of the assurance findings expressed in the opinion, recommendation and conclusion offered by the assurance provider. AA1000AS (2008); ISAE3000 (2005) require assurance providers to offer

their opinion/recommendation/conclusion publicly about the assurance work they have carried out, including limitations of the exercise. The features to consider in this aspect include; a clear section on opinion/recommendation/conclusion by the assurance provider, limitations/weaknesses or shortcomings identified in any aspect of the assurance procedure (not limited to data collection, reporting, performance and stakeholder issues) and clear recommendations made to the reporting company.

Appendix II

Pilot study (content analysis)

Pilot studies tends to be a relatively common tool in social research (Gray et. al, 1995; Todd et. al, 1995), where Bryman and Bell (2007) argued that conducting a pilot study is always desirable, before obtaining the main data for a study. Piloting a study is an approach that attempts to ensure the research instrument or questionnaire functions well and captures relevant data that is crucial to the study. The adoption of pilot study enables the researcher to decide on a clear definition of the study's focus, this will assist the researcher in concentrating more on specific data collection given a narrow spectrum (Frankland and Bloor, 1999). Pilot studies as argued by Teijlingen and Hundley (2001) are a crucial element in the design of a good research, which significantly improves the success of many studies.

As the research instrument was specifically developed for this study, there was a need to conduct a pilot study to test the applicability and relevance of every question in the content analysis research instrument. Consequently, this pilot study focused on corporate documents in the form of assurance statements of representative companies in FTSE350 for the year 2010, in order to allow the instrument to be reviewed during and after to pilot study for irregularities and improvements. The pilot consisted of 20 selected companies (see Table 1 below) with assurance statements to test contents of the assurance reports against questions developed in the research instrument.

Table 1 Companies in the pilot study

| Company name | Sector | Index |
|------------------------|---|---------|
| Amec | Oil & Gas (equipment services & distribution) | FTSE100 |
| Aviva | Financials (life insurance) | FTSE100 |
| BP | Oil & Gas (producers) | FTSE100 |
| BT Group | Telecommunications | FTSE100 |
| Cairn Energy | Oil & Gas (producers) | FTSE100 |
| Diageo | Consumer Goods (beverages) | FTSE100 |
| Imperial Tobacco Group | Consumer Goods (tobacco) | FTSE100 |
| Lloyds Banking Group | Financials (banks) | FTSE100 |
| Man Group | Financials (financial services) | FTSE100 |
| Pearson | Consumer Services (media) | FTSE100 |
| Rio Tinto | Basic Materials (mining) | FTSE100 |
| Standard Life | Financials (life insurance) | FTSE100 |
| Tesco | Consumer Services (food & drug retailers) | FTSE100 |
| Tullow Oil | Oil & Gas (producers) | FTSE100 |
| Whitbread | Consumer Services (travel & leisure) | FTSE100 |
| Carillion | Industrials (support services) | FTSE250 |
| Home Retail Group | Consumer Services (general retailers) | FTSE250 |
| Invensys | Technology (software & computer services) | FTSE250 |
| Smith (DS) | Industrials (general industrials) | FTSE250 |
| WH Smith | Consumer Services (general retailers) | FTSE250 |

The pilot review examined 21 assurance statements, given that one of the companies (Lloyds Banking Group) published two assurance reports. Selected companies in the pilot sample included a representative from all the major industries except health care. Thus, the pilot study analyzed assurance statements of companies from almost all the major sectors in the entire sample. Table 1 also reveals that the pilot sample constitute 15 FTSE100 and 5 FTSE250 companies.

Findings from pilot study

The pilot study shows questions in the research instrument appear to elicit information from the assurance statements. Table 2, 3 and 4 below presents a summary of the pilot study findings classified into three broad sections, namely: background of the assurance statement, nature of assurance work undertaken and nature of conclusion provided respectively.

Table 2 background of assurance statement

| Elements | Outcome |
|-----------------------------------|---|
| Title of assurance section | Assurance (3); Assurance statement (5); Environmental data verification statement (1); Independent assurance report (8); Independent assurance statement (1); Verification statement (3) |
| Assurance providers | Accountants: Deloitte (1); Ernst and Young (2); KPMG (2); PwC (3). Consultants: Acona Partners (1); Bureau Veritas (2); Corporate citizenship (2); CSE (1); ERM (2); RPS (1); LRQA (1); Sage (1); SKM enviros (1); Virtuous circle (1) |
| Addressee of assurance statements | Directors (3); Company name (5); Management (3); Stakeholders (1); No addressee (9) |
| Length of assurance statements | One page (4); Two pages (13); Three pages (4) |
| Assurance guidelines | ISAE3000 (5); AA1000AS (2); ISAE3000 & AA1000AS (5); Other guidelines (1); No guidelines (8) |

| | |
|-------------------------------------|--|
| Assurance level | Limited/ Moderate (10); Reasonable/ High (1); No level (10) |
| Independence of assurance providers | Comment about independence (16); No comment about independence (5) |
| Scope of assurance | All statements included scope of assurance depicted in different ways. 8 assurance statements used the term 'selected' in describing scope of assurance. |

Elements contained in the background of assurance statements section appear to present some valuable information about the fundamentals of assurance engagements. Certain attributes of assurance procedures begin to emerge from the responses of respective elements. As a result, an initial picture of assurance services procedures from the pilot sample is gradually forming. All elements in the background of assurance statements have elicited some kind of response (as shown in Table 2 above), thus indicating that all questions in the research instrument, so far, are producing results. However, responses in other elements of the research instrument: work undertaken by assurance providers and nature of assurance conclusion, will prove more useful when considered collectively.

Table 3 Work undertaken by assurance providers

| Elements | Outcome |
|-------------------------------------|-------------------|
| Interview management | Yes (12); No (9) |
| Meeting with management | Yes (2); No (19) |
| Review of corporate level documents | Yes (11); No (10) |
| Review of supporting documents | Yes (12); No (9) |

| | |
|--|---|
| Review of data collection, collation and aggregation systems | Yes (17); No (4) |
| Review of reporting systems | Yes (12); No (9) |
| Site visits | Yes (3); No (18) |
| Interview stakeholders | Yes (3); No (18) |
| Review of stakeholder engagement approach | Yes (7); No (14) |
| Review of stakeholder materiality | Yes (7); No (14) |
| Review of stakeholder inclusivity | Yes (6); No (15) |
| Review of stakeholder responsiveness | Yes (6); No (15) |
| Review external sources of evidence | Media and peer reports (6); No consideration of external sources of evidence (15) |
| Stakeholder groups involved in assurance | Employees (2); Community (1); No stakeholders involved (18) |
| Questionnaire or survey of stakeholder | No (21) |

Assurance providers carried out a number of tasks, particularly the review of data collection, collation and aggregation systems appeared to be the most practiced assurance task in the pilot sample as indicated in Table 3 above. Issues in relation to stakeholders were considerably given less attention with questionnaire and survey of stakeholders being the only element so far not to be included in all assurance procedures.

Table 4 Nature of conclusion provided

| Elements | Outcome |
|------------------------------|-------------------|
| Presence of clear conclusion | Yes (19); No (2) |
| Outline of observation | Yes (13); No (8) |
| Recommendation offered | Yes (11); No (10) |

Table 4 shows that all aspects of assurance provider's conclusions appear to have a response. In all the elements, majority of the assurance statements provided information that showed aspects of assurance conclusion were given attention to a considerable degree.

Pilot study conclusions

The main purpose of this pilot study is to test the extent to which questions in the research instrument are capable of extracting relevant information from assurance statements. The research instrument (evaluation template) seems to be capable of eliciting data from assurance statements as all the questions appeared to have elements that were adopted by assurance providers, except one. The question: "did the assurance provider use questionnaire or survey of stakeholders?" was entirely not utilised because none of the assurance statements in the pilot sample appear to include the practice when assuring any sustainability report. This might be different in the final evaluation, since the question was included as a way of determining direct stakeholder inclusion. Therefore, it will remain as part of the final research instrument.

Also, a certain area worthy of improvement was observed when reviewing the question: did the assurance provider offer recommendation to the reporting company? This captures advice by assurance providers to reporting companies on how they can improve their sustainability performance and reporting. This stance questions the role of assurance provider, where providing recommendation is viewed as an extension of consultation services (Manetti and Toccafindi, 2012; O' Dwyer and Owen, 2007), which ideally should not usually be carried out simultaneously within a conventional audit procedure. But, assurance of sustainability reports is a developing area that is open to innovative approaches (O' Dwyer, 2011). Requirements in current assurance guidelines like ISAE3000 (2004) and AA1000AS (2008) did not explicitly propose against offering recommendations in assurance statements. Assurance providers offered recommendations in 52% of the pilot study sample. This figure in addition to consideration of stakeholder issues in assurance services motivated the possibility of investigating any recommendation that refers to stakeholders, particularly stakeholder engagement and stakeholder materiality, inclusivity and responsiveness. Hence, a question: did the assurance provider present any recommendation in relation to stakeholders? Will be included in the final research instrument.

The pilot study has assisted this study in laying a foundation for which the final content analysis will be based on. A preliminary picture of the nature of assurance engagements has been shown. The pilot study is instrumental in demonstrating a fraction of the presence of key issues in assurance services as argued by leading scholars in the field, as a result building on the findings of this pilot study will present a clearer picture of assurance practices in the

subsequent phases of this study. More importantly, elements reviewed in the pilot study indicate they are relevant in understanding current sustainability assurance issues.

Appendix III

The Evaluation Template Questions (ETQ)

| S/N | Questions | | Sub questions |
|-----|------------------------------------|-------|--|
| 1.1 | Company name | | |
| 1.2 | Sector | | |
| 1.3 | Size | 1.3.1 | Market capitalization |
| | | 1.3.2 | FTSE index series |
| 1.4 | Medium of disclosure | | |
| 1.5 | Name of report | | |
| 1.6 | Source of assurance statement | | |
| 2.1 | Title of assurance statement | | |
| 2.2 | Length of assurance statement | | |
| 2.3 | Addressee of assurance statement | | |
| 2.4 | Assurance guidelines | | |
| 2.5 | Level of assurance pursued | | |
| 2.6 | Date of assurance statement | | |
| 3.1 | Name of assurance provider | | |
| 3.2 | Type of assurance provider | | |
| 3.3 | Address of assurance provider | | |
| 4.1 | Independence of assurance provider | 4.1.1 | Comment on independence of assurance provider |
| | | 4.1.2 | Assurance provider not involved in producing report |
| | | 4.1.3 | Assurance provider code of ethics |
| | | 4.1.4 | Assurance provider other engagements with company |
| | | 4.1.5 | Assurance provider confirmed independence to reporting company |
| 4.2 | Scope of assurance engagement | 4.2.1 | Environmental issues |
| | | 4.2.2 | Social issues |
| | | 4.2.3 | Statements made and data presented |
| | | 4.2.4 | GRI application level |

| | | | |
|-----|-------------------------------|--------|--|
| | | 4.2.5 | Extent of compliance with AA1000APS |
| | | 4.2.6 | Using 'selected' in describing scope |
| 4.3 | Assurance work undertaken | 4.3.1 | Contact with management |
| | | 4.3.2 | Review of corporate level documents |
| | | 4.3.3 | Review of supporting evidence |
| | | 4.3.4 | Review of data collection systems |
| | | 4.3.5 | Review of reporting systems |
| | | 4.3.6 | Review of measurements, calculations, procedures and quality control systems |
| | | 4.3.7 | Performed risk assessments/ identification/ analytical procedures |
| | | 4.3.8 | Test of evidence/ recalculations of metrics |
| | | 4.3.9 | Review or rely on internal audit |
| | | 4.3.10 | Site visits |
| 4.4 | Stakeholder issues | 4.4.1 | Stakeholder interviews |
| | | 4.4.2 | Observe or participate in stakeholder meetings |
| | | 4.4.3 | Review minutes or details of stakeholder meetings |
| | | 4.4.4 | Consider external sources of evidence |
| | | 4.4.5 | Stakeholder groups involved |
| | | 4.4.6 | Questionnaire or survey of stakeholders |
| | | 4.4.7 | Review approach to stakeholder engagement |
| | | 4.4.9 | Review stakeholder materiality |
| | | 4.4.9 | Review stakeholder inclusivity |
| | | 4.4.10 | Review stakeholder responsiveness |
| 4.5 | Nature of conclusion provided | 4.5.1 | Clear conclusion based on assurance engagement |
| | | 4.5.2 | Observation on the performance of reporting company |
| | | 4.5.3 | Recommendation to the reporting company |
| | | 4.5.4 | Recommendation directed at stakeholder |

| | | | |
|--|--|-------|--|
| | | | issues |
| | | 4.5.5 | Limitations of the assurance procedure |

Appendix IV

List of FTSE350 companies with assurance statements

| | Name | Sector | Size (M£) | Index | Year |
|----|--------------------------------|--------------------|-----------|---------|------|
| 1 | Amec | Oil & Gas | 3009 | FTSE100 | 2010 |
| 2 | Anglo American | Basic Materials | 31544 | FTSE100 | 2010 |
| 3 | Associated British Foods | Consumer Goods | 4384 | FTSE100 | 2011 |
| 4 | AstraZeneca | Health Care | 38791 | FTSE100 | 2010 |
| 5 | Aviva | Financials | 8738 | FTSE100 | 2010 |
| 6 | BAE Systems | Industrials | 9249 | FTSE100 | 2010 |
| 7 | Balfour Beatty | Industrials | 1803 | FTSE250 | 2010 |
| 8 | Barclays | Financials | 21443 | FTSE100 | 2010 |
| 9 | Barratt Developments | Consumer Goods | 896 | FTSE250 | 2011 |
| 10 | BG Group | Oil & Gas | 46377 | FTSE100 | 2010 |
| 11 | BHP Billiton | Basic Materials | 39654 | FTSE100 | 2011 |
| 12 | Big Yellow Group | Financials | 320 | FTSE250 | 2011 |
| 13 | BP | Oil & Gas | 86771 | FTSE100 | 2010 |
| 14 | British American Tobacco | Consumer Goods | 60182 | FTSE100 | 2010 |
| 15 | British Land Co | Financials | 4092 | FTSE100 | 2011 |
| 16 | British Sky B Group | Consumer Services | 9630 | FTSE100 | 2011 |
| 17 | BT Group | Telecommunications | 14762 | FTSE100 | 2010 |
| 18 | Cairn Energy | Oil & Gas | 3707 | FTSE100 | 2010 |
| 19 | Capital Shopping Centres Group | Financials | 2012 | FTSE100 | 2010 |
| 20 | Carillion | Industrials | 1294 | FTSE250 | 2010 |
| 21 | Carnival | Consumer Services | 4564 | FTSE100 | 2010 |
| 22 | Centrica | Utilities | 14905 | FTSE100 | 2010 |
| 23 | CRH | Industrials | 9059 | FTSE100 | 2010 |
| 24 | Diageo | Consumer Goods | 35426 | FTSE100 | 2011 |
| 25 | Essar Energy | Oil & Gas | 670 | FTSE100 | 2010 |
| 26 | Experian | Industrials | 8755 | FTSE100 | 2011 |
| 27 | FirstGroup | Consumer Services | 1628 | FTSE250 | 2011 |
| 28 | GlaxoSmithKline | Health Care | 74778 | FTSE100 | 2010 |
| 29 | Great Portland Estates | Financials | 1010 | FTSE250 | 2011 |
| 30 | Home Retail Group | Consumer Services | 685 | FTSE250 | 2011 |
| 31 | HSBC Holdings | Financials | 87492 | FTSE100 | 2010 |

| | | | | | |
|----|--------------------------------|--------------------|--------|---------|------|
| 32 | Imperial Tobacco Group | Consumer Goods | 24756 | FTSE100 | 2011 |
| 33 | International Personal Finance | Financials | 441 | FTSE250 | 2010 |
| 34 | International Power | Utilities | 5121 | FTSE100 | 2011 |
| 35 | Invensys | Technology | 1702 | FTSE250 | 2011 |
| 36 | Johnson Matthey | Basic Materials | 3941 | FTSE100 | 2011 |
| 37 | Kingfisher | Consumer Services | 5872 | FTSE100 | 2011 |
| 38 | Land Securities Group | Financials | 4948 | FTSE100 | 2011 |
| 39 | Lloyds Banking Group | Financials | 10404 | FTSE100 | 2011 |
| 40 | Lonmin | Basic Materials | 1982 | FTSE250 | 2011 |
| 41 | Man Group | Financials | 2321 | FTSE100 | 2011 |
| 42 | Marks & Spencer Group | Consumer Services | 4934 | FTSE100 | 2011 |
| 43 | Mondi | Basic Materials | 1671 | FTSE250 | 2010 |
| 44 | National Grid | Utilities | 22245 | FTSE100 | 2011 |
| 45 | Next | Consumer Services | 4752 | FTSE100 | 2011 |
| 46 | Pearson | Consumer Services | 9839 | FTSE100 | 2011 |
| 47 | Petropavlovsk | Basic Materials | 1155 | FTSE250 | 2010 |
| 48 | Premier Farnell | Industrials | 662 | FTSE250 | 2011 |
| 49 | Premier Oil | Oil & Gas | 1690 | FTSE250 | 2010 |
| 50 | Provident Financial | Financials | 1289 | FTSE250 | 2010 |
| 51 | Reckitt Benckiser Group | Consumer Goods | 23050 | FTSE100 | 2010 |
| 52 | Reed Elsevier | Consumer Services | 6311 | FTSE100 | 2010 |
| 53 | Rio Tinto | Basic Materials | 45130 | FTSE100 | 2010 |
| 54 | Rolls-Royce Holdings | Industrials | 13973 | FTSE100 | 2011 |
| 55 | Royal Dutch Shell (A&B) | Oil & Gas | 152266 | FTSE100 | 2010 |
| 56 | RSA Insurance Group | Financials | 3708 | FTSE100 | 2010 |
| 57 | SABMiller | Consumer Goods | 26967 | FTSE100 | 2011 |
| 58 | Smith (DS) | Industrials | 857 | FTSE250 | 2011 |
| 59 | Standard Life | Financials | 4855 | FTSE100 | 2009 |
| 60 | Tesco | Consumer Services | 32083 | FTSE100 | 2011 |
| 61 | Tullow Oil | Oil & Gas | 12672 | FTSE100 | 2010 |
| 62 | Unilever | Consumer Goods | 28339 | FTSE100 | 2011 |
| 63 | United Utilities Group | Utilities | 4132 | FTSE100 | 2011 |
| 64 | Vedanta Resources | Basic Materials | 1345 | FTSE100 | 2011 |
| 65 | Vodafone Group | Telecommunications | 90365 | FTSE100 | 2011 |
| 66 | WH Smith | Consumer Services | 740 | FTSE250 | 2011 |
| 67 | Whitbread | Consumer Services | 2748 | FTSE100 | 2011 |
| 68 | Xstrata | Basic Materials | 21746 | FTSE100 | 2010 |

Appendix V

Interview questions I

Assurance providers

1. In your opinion, what is the purpose of sustainability reporting assurance?
2. What steps do you take to ensure companies are encouraged to continue assuring their sustainability reports?
3. Based on the principles of accounting and accountability (such as completeness and credibility), how does assurance contribute in ensuring these elements (completeness and credibility) are represented in disclosed sustainability reports?
4. What do you think about assuring stakeholder engagement practices of reporting companies?
5. From your experience, what are the most effective ways of collecting evidence either directly (interviews, meetings, observation) or indirectly (external documentation) for the purpose of assurance?
6. What challenges do you (as an assurance provider) face, in general, when assuring sustainability reports? Including possible stakeholder engagement information?
7. How do you ensure your independence when discharging assurance engagements?
8. How do you decide on particular assurance guidelines (ISAE3000 and/or AA1000AS) to adopt when discharging assurance engagements?
9. What steps do you take towards ensuring assurance statements are presented in the most simplistic and understandable manner for readers and users?

10. What approach do you have for responding to feedback based on the assurance engagements you have carried out?
11. In an ideal setting, what would you have done more or differently to enhance the quality of assurance engagements and assurance statements?

Interview questions II

Stakeholders

1. What should be the motive behind companies' decision to assure their sustainability reports?
2. How does the presence of an assurance statement influence your opinion about a given sustainability report?
3. How does assurance statements improve transparency of corporate activities?
4. What are the important elements, in your opinion, that makes an assurance statement 'complete' and 'credible'?
5. What is your opinion about assuring disclosed stakeholder engagement practices of companies
6. What do you think about stakeholders' involvement in sustainability reporting assurance practices as a way of verifying claims or obtaining evidence either directly (interview, meetings) or indirectly (review of stakeholder related documents, internet searches)?
7. What is your view on the different categories of assurance providers (accountants and consultants) and how do they affect actual assurance performance?
8. What is your view on the nature of independence of assurance providers?
9. What does the adoption of assurance guidelines (ISAE3000, AA1000AS) bring to assurance statements?
10. What is your view on offering feedback about assurance statements?
11. In an ideal situation, what do you think assurance providers should do more or differently in the process of assuring sustainability reports?

Appendix VI

Stakeholder panel statement



National Grid - Stakeholder Panel Statement

1. Introduction

National Grid commissioned Corporate Citizenship, a specialist corporate responsibility and sustainability consultancy, to undertake a rolling three year approach to corporate responsibility assurance. In 2011, with the commencement of a new three-year cycle, the company supplemented this approach to assurance with the creation of an external Stakeholder Panel.

The purpose of the Stakeholder Panel is to provide additional independent opinion on the performance of the company as well as make recommendations on where it could improve the future reporting of corporate responsibility-related issues and performance.

The Panel comprises 10 members drawn from the company's key UK and US stakeholders, including peer companies, suppliers, non-governmental organisations, investors and community partners (please see Appendix at the end of this document for a list of members). Members met in July 2011 to discuss National Grid's 2010/11 online Corporate Responsibility Report. This statement, which has been signed-off by all Panel members, is intended to give an overview of the key issues raised in discussions. This statement is not intended to be published by National Grid, however it will be presented to senior leadership to help inform future reporting and strategy.

2. Strengths in reporting

The Panel expressed positive views about many aspects of the report and overall thought it presented a wide-ranging and convincing picture of National Grid's commitment to corporate responsibility issues. Panel members highlighted the following specific strengths to this year's report.

2.1 Scope of reporting

Comprehensive and credible were words repeatedly used to describe National Grid's report. There was widespread agreement that the report provided good coverage of a broad range of issues that were material to the company. One member described how impressed he was by the level of disclosure within the

report and found it empowering to read as it increased his understanding of the business and its key issues. Members felt the report gave a clear representation of business priorities.

The level of detail provided on investor relations and the inclusion of key performance indicators related to shareholders were viewed positively. This was an area that National Grid was seen to be going further in its reporting compared to other companies and it was thought this would be welcomed by investors and analysts.

2.2 Directional CEO statement

Many Panel members noted that the CEO statement was very informative and engaging, giving audiences a clear sense of the company's overall corporate responsibility strategy. The CEO's perspective on the company's risks and opportunities demonstrated how corporate responsibility links directly to business objectives. Importantly, as one member stated, the statement presented a good picture of where the company is heading.

2.3 Key performance indicators

The level and scope of the key performance indicators reported was in general commended. Inclusion of metrics across key impact areas, together with trend data going back a number of years, showed a focus on measuring and tracking performance.

That said, the Panel highlighted a need for National Grid to provide more context to help the reader understand the factors contributing to data trends and shifts in performance. This point is raised in more detail in section 3.1 of this statement.

2.4 Framework for Responsible Business

National Grid's Framework for Responsible Business was viewed positively, providing a clear and coherent structure for guiding responsible business practices. Going forward, Panel members thought there was an opportunity to more closely integrate the Framework into the Corporate Responsibility Report.

3. Areas for improvement

Despite these positive comments about the overall scope and approach of the Report, Panel members did express some concerns and identified a number of areas where National Grid's corporate responsibility reporting could be improved. Overall, there were four substantive issues that Panel members thought deserved more extensive coverage. In addition, several comments were made about the accessibility of the on-line Report. Each of these improvement areas are discussed below.

3.1 Understanding the context

It was suggested that throughout the Report, there was a need to provide more context about the environment in which National Grid operates. At a strategic level, this would involve providing a clearer explanation of National Grid's business model, dealing with such issues as: how the utility sector operates; how the company generates wealth; and how the business differs across its two principal markets in the UK and the US.

Although this information is included in other areas of National Grid's corporate reporting, Panel members suggested a summary should be included in the Corporate Responsibility Report in order to understand better the issues facing the business. Related to this point, Panel members were keen to see greater coverage given to the regulatory environment and National Grid's interaction with regulators – including their stance on key public policy debates – in future reporting.

At a more tactical level, there were several requests for a more complete explanation of trends in data (such as waste, environmental fines, scope 3 carbon, contractor safety performance and latest BiTC CR Index scoring). When notable changes in performance occur, readers need to know the reasons why. If there is a positive improvement, what factors brought this about? If there is deterioration in performance, why has this happened and what is the company doing to manage the situation?

3.2 Understanding materiality

The second area of concern centred on understanding the materiality analysis which drives the reporting process. Although Panel members were impressed with the breadth of issues identified as the material non-financial impacts of the business, there was a request to understand more about the process by which these were selected for inclusion in the Report. Linked to this issue there were requests for greater disclosure of National Grid's sustainability governance structures, detailing who is responsible for different aspects of corporate responsibility across the organisation. It was suggested that, without understanding how the company monitors material risks and opportunities, the reader of the Report cannot judge how well-placed the business is to respond to future challenges in the operating environment.

3.3 Reporting on the value chain

There was a general view that audiences are increasingly concerned about how leading companies are addressing corporate responsibility issues throughout their value chain, as well as within their direct operations. Panel members felt that the report did not provide sufficient coverage to this aspect of performance and this should be a future area of focus.

National Grid's unique and significant power to educate and influence the behaviour of its many suppliers, contractors and customers on environmental and social issues, was highlighted as an immense opportunity and worthy of more attention within the Report. In particular, the Panel were interested to know more about the

company's work to educate customers on energy efficiency and how the Supplier Code of Conduct has helped to promote responsible practice amongst suppliers.

3.4 Demonstrating leadership and a forward-looking perspective

Discussion then turned to a consideration of the key issues that will face the business in the next 5 – 15 years. The Panel highlighted at least four important issues that National Grid should consider reporting on. These included:

- Having greater transparency on the link between corporate responsibility performance and executive remuneration
- Exploiting opportunities for innovation (through, for example, renewable energy and smart grids)
- Addressing the challenges of water usage and management
- Recruiting and developing skilled employees in the context of an ageing workforce.

Pursuing this point further, some Panel members thought it important for National Grid to show leadership in certain aspects of corporate responsibility or sustainability. Members did not come to a consensus on one specific issue for leadership; however National Grid's work around innovation in community investment programmes on education was highlighted as a potential contender. In particular, a focus on developing STEM skills (science, technology, engineering and maths) would be highly relevant to the business.

In addition, linked to the concept of demonstrating a longer-term perspective, there were requests for National Grid to set targets across all impact areas (e.g. waste and adaptation) and to explain the process for setting longer-term stretch targets.

3.5 Improving the user-experience

Finally, there were some criticisms about the style and presentation of the Report, with a number of suggestions for how future reports could be made more user-friendly and engaging for audiences. Generally, the overall tone of the 2010/11 Report was considered to be text-heavy, comprehensive yet uninspiring, and with very limited use of interactive components and imagery. Interestingly, Panel members felt the sombre tone of the report did not reflect the genuine culture of the company and their own experiences of National Grid, which they described as being very positive, upbeat and inspiring.

Key ideas noted included providing more stories and case studies integrated within the text (especially examples from the US) and using more visuals and interactive elements such as videos of the CEO and employees. The Panel thought these suggestions would help to show the 'human face' of National Grid. They also suggested the Report's navigation could be simplified to make information more accessible (key information should not be more than one click away according to some members) and enable readers to keep track of information already viewed on the website.

4. Next steps

Panel members welcomed the opportunity to provide feedback on National Grid's 2010/11 Corporate Responsibility Report and were positive about the process undertaken. It was suggested that sending high-level questions in advance of the next meeting could help the Panel prepare. In addition, the Panel noted it would be beneficial to have a representative from the stakeholder groups that had not attended this session – customers and regulators.

Looking ahead, the Panel are very keen to see how National Grid will respond to the points raised during the meeting and expressed a willingness to further engage with the company through this valuable consultation process. Finally, the Panel also encourages National Grid to go public with future opinion statements.

Corporate Citizenship
London and New York, July 2011

Appendix – Panel Members

Alan Christie, Policy Director, *Equality & Human Rights Commission*, UK

Emma Walsh, Partnerships Manager, *Royal Academy of Engineering* UK

Briana Whitlock, Corporate Responsibility Officer *Centrica* UK (1)

Jonathan Garrett, Group Head of Sustainability, *Balfour Beatty* UK

Rory Adam, SRI Analyst, *Standard Life Investments* UK

Toby Shillito, Director, *Business in the Community* UK

Aman Singh Das, Senior Editor – CR, *Vault Career Intelligence* US

Constantina Bichta, Principal ESG Researcher, *Boston Common Asset Management* US

Michael Brown, Chief Executive Officer and Co-Founder, *City Year* US

Veena Ramani, Manager, Corporate Programs, *Ceres* US